MANITOBA

REPORT OF THE
PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

FOR THE
FISCAL YEAR ENDED MARCH 31
1982

Printed by Queen's Printer for the Province of Manitoba

TABLE OF CONTENTS

	Page
Legal Provisions and Introductory Comments	1
Assets and Liabilities	
Overview Comments	3
Operating Fund Assets and Liabilities	
Working Capital	5
Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank	6
Excess of Liabilities over Recorded Assets	8
Direct Public Debt	9
Guaranteed Public Debt	10
Combined Direct and Guaranteed Public Debt	11
Sinking Funds	12
Other Actual and Contingent Liabilities and Commitments	12
Trust Fund Assets and Liabilities	
Administered Trust Funds	15
Custodial Trust Funds	15
Revenue and Expenditure	16
Special Warrants	17
Government's Central Management System	
Introductory Comments	18
Department of Finance	20
Civil Service Commission	25
Departments and Agencies Operations	
Department of Attorney-General	28
Department of Education	28
Department of Government Services	29
Department of Health	30
Department of Municipal Affairs	30
Channel Area Loggers Ltd.	31
Lotteries and Gaming Licensing Board	31
Manitoba Data Services Commission	31
Manitoba Development Corporation — Subsidiary and Investment Under Part II of the Act	32
Manitoba Forestry Resources Ltd.	33
Manitoba Health Services Commission	34
Manitoba Housing and Renewal Corporation	36
Manitoba Telephone System	39

TABLE OF CONTENTS

	Page
Organization and Activities of the Provincial Auditor's Office	
Scope of Audit and Reporting Procedures	42
Organization	43
Staffing	43
Staff Training	43
Revenue and Expenditure	44
Audit of the Accounts of the Provincial Auditor's Office	44
Meeting of Legislative Auditors	44
Provincial Auditor's Liaison Committee of The Institute of Chartered Accountants of Manitoba	45
Acknowledgements	46
Exhibits	47
1 Scope of audit and reporting procedures	48
2 Schedule of Government Agencies audited and reported on by the Provincial Auditor	51
3 Schedule of Government Agencies audited and reported on by Professional Audit Firms with an overview audit by the Provincial Auditor	52
4 Organizational chart of the Provincial Auditor's Office	53
5 Report on the audit of the Provincial Auditor's Office	54
6 Special Warrants by Departments	55
7 The Provincial Auditor's Report in the Public Accounts	56
8 Operating Fund Assets and Liabilities and Trust Fund Assets and Liabilities	57
9 Summary of Revenue and Expenditure	59
10 Excess of Liabilities over Recorded Assets	60
11 Statement of Changes in Financial Position — Operating Fund	61
12 Accounting Policies	62

REPORT OF THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY OF MANITOBA

LEGAL PROVISIONS AND INTRODUCTORY COMMENTS

This report is being made to the Legislative Assembly of Manitoba for the fiscal year ended March 31, 1982 in compliance with subsections (1), (1.1), (2) and (3) of section 13 of The Provincial Auditor's Act. These subsections of section 13 of the Act are as follows:

Report to assembly.

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of report.

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for purposes for which it was appropriated by the Legislature.

Submission of report.

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in session, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Distribution of report to members of assembly.

13(3) The Lieutenant Governor in Council, upon receiving the report of the Provincial Auditor, shall direct that copies of the report be sent to the members of the assembly.

In accordance with the aforementioned requirements of the Act, I must report on significant matters where difficulties have been observed and any other matters which I consider should be brought to the attention of the Legislative Assembly. This is being done in a manner as outlined in Exhibit 1 of this report under reporting procedures. In reading this report, the manner of reporting by exception must be kept in mind so that an excessive negative impression of the overall operations is not concluded. The report also maintains continuity of matters reported from year to year. Any observations in the previous year's report which required further action are commented on again in this year's report, providing an updated position.

I also report that, in carrying on the work of my office, I received all the information and explanations I required.

The various matters being reported are commented on under the following headings in this report:

Assets and Liabilities — Overview

Operating Fund Assets and Liabilities

Trust Fund Assets and Liabilities

Revenue and Expenditure

Special Warrants

Government's Central Management System

Departments and Agencies Operations

Organization and Activities of the Provincial Auditor's Office

Acknowledgements

The report also includes 12 exhibits which provide additional information for matters being commented on. A number of these exhibits consist of reproductions from the Public Accounts, being the main financial statements and my report thereon. A list of the exhibits is provided on page 47.

ASSETS AND LIABILITIES

Overview Comments

Accounting policies

The assets and liabilities are accounted for in accordance with accounting policies stated in the Public Accounts and reproduced in this report in Exhibit 12. The assets and liabilities are reflected in the Consolidated Fund which is divided into two sections: operating fund assets and liabilities; and trust fund assets and liabilities. There were no changes in accounting policies during the fiscal year ended March 31, 1982. However, there was an unusual transaction recorded in the accounts. A $25.0 million balance in the Special Municipal Loan and General Emergency Fund was closed out and treated as revenue. This amount was not revenue because money had to be borrowed to fund it in the same way as the deficit. When the Special Municipal Loan and General Emergency Fund was augmented in the fiscal years ended March 31, 1974 and 1975, funds were not set aside for the use of the Fund but remained as part of the general working capital of the Province and used in the general operations of the Government. What has happened demonstrates how these unfunded reserves serve to undermine accountability; these kinds of reserves have now been disposed of.

Operating fund assets and liabilities.

The operating fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8. The total liabilities increased by $738.9 million at March 31, 1982 from the preceding year end, from $2,732.1 million to $3,471.0 million. The increase resulted from increases in: the public debt of $584.4 million; the amount of trust funds used for operations of $69.0 million; and the accounts payable and other liabilities of $85.5 million.

Funds resulting from the increased total liabilities of $738.9 million were used to finance: the deficit for the year ended March 31, 1982 of $251.0 million; the $25.0 million transfer of the Special Municipal Loan and General Emergency Fund balance to revenue commented on in the preceding section; the additional investments in crown corporations of $213.8 million; and the increase in temporary investments and other assets of $249.1 million.

There was a decrease of $35.9 million in the total guaranteed and indirect liabilities at March 31, 1982 from the preceding year end, from $1,857.7 million to $1,821.8 million. There were very limited new activities in this category in the past several years. Financing for these undertakings has been mainly carried out in the name of the Province and treated as loans or advances instead of guarantees.

More detailed comments and analysis concerning these assets and liabilities are made in the next section of this report.

Trust fund assets and liabilities

The trust fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8.

The trust fund assets and liabilities are segregated into two categories: administered trust funds; and custodial trust funds.

The administered trust funds increased by $137.5 million at March 31, 1982 from the preceding year end, from $564.5 million to $702.0 million. This increase mainly arises from government corporations' increased sinking funds of $13.3 million and increased funds on deposit of $114.0 million.

The custodial trust funds increased by $49.3 million at March 31, 1982 from the preceding year end, from $537.9 million to $587.2 million. This increase mainly arises from increases in securities of the Civil Service Superannuation Fund of $22.2

Overview Comments *(continued)*

Trust fund assets and liabilities (continued)

million, the Workers Compensation Board of $9.2 million, the Manitoba School Capital Financing Authority of $5.7 million and the Public Trustee of $6.1 million.

Further particulars are provided concerning these trust funds immediately following the Operating Fund Assets and Liabilities section in this report.

OPERATING FUND ASSETS AND LIABILITIES

Working Capital

The particulars of the working capital are as follows *(in millions of dollars)*:

	March 31 1982	March 31 1981	Increase (Decrease)
Assets			
Temporary investments	$604.3	$349.5	$254.8
Current amounts due from Canada and other external sources	33.4	42.1	(8.7)
	637.7	391.6	246.1
Liabilities			
Amount owing to the Trust Fund	313.4	244.4	69.0
Bank overdraft and promissory notes	53.6	33.7	19.9
Accounts payable, accrued charges and funds subject to call	250.3	184.7	65.6
	617.3	462.8	154.5
Excess of assets over (under) liabilities	$ 20.4	$ (71.2)	$ 91.6

The cash flow, except for bank short-term borrowing and trust funds, is generally consistent from year to year. The ratio of assets to liabilities is mainly dependent on the timing of long-term borrowing to refinance short-term bank borrowing. There can also be fluctuations in the amount of trust funds used depending on their availability. In accordance with an order of the Lieutenant Governor in Council, the aggregate of promissory notes outstanding and bank lines of credit utilized is not to exceed $250 million.

In addition to the current mounts due from Canada and other external sources shown above of $33.4 million at March 31, 1982 ($42.1 million at March 31, 1981), accounts receivable from municipal corporations and other third parties of $28.8 million at March 31, 1982 ($26.4 million at March 31, 1981) are included in the Public Accounts in Advances and Other Receivables from Government of Canada and Others amount of the Operating Fund Assets and Liabilities statement. All these accounts are considered to be collectible.

The recording of transactions in accordance with the present accounting policies does not reflect a complete working capital position. Vouchers paid in April pertaining to services, etc. to March 31 are recorded as accounts payable as at March 31. On the other hand, school expenditures to March 31, recoverable from the Province and financed by school divisions from bank loans, are not recorded as accounts payable as at March 31. These expenditures amounted to $66 million as at March 31, 1982. With regard to cash receipts, receipts in April pertaining to taxes to March 31 collected by agents are not recorded as accounts receivable as at March 31. These receipts amounted to $37 million as at March 31, 1982. Consideration should be given to changing the accounting policies to more appropriately reflect the year end financial position.

OPERATING FUND ASSETS AND LIABILITIES

Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank

The particulars of advances and long-term investments are as follows (*in millions of dollars*):

	March 31 1982	March 31 1981	Increase (Decrease)
Government agencies:			
Advances	$1,652.6	$1,430.2	$222.4
Investments	239.3	237.8	1.5
	1,891.9	1,668.0	223.9
Other investments:			
Tantalum Mining Corporation of Canada Limited	3.3	3.3	—
Northland Bank	.5	—	.5
	1,895.7	1,671.3	224.4
Less:			
Allowance for losses on the basis of accumulated deficits in accordance with the most recent audited financial statements	114.0	121.0	(7.0)
Sinking funds of government agencies on account of debt incurred by the Province	68.2	58.2	10.0
	182.2	179.2	3.0
Net amounts	$1,713.5	$1,492.1	$221.4

Investments in government agencies are the same as advances except that they are covered by legal instruments consisting of debentures and shares.

The increase in advances to government agencies of $222.4 million shown in the foregoing statement is accounted for as follows *(in million of dollars)*:

Advances, net:	
Manitoba Hydro-Electric Board	$127.3
Manitoba Telephone System	50.7
Manitoba Agricultural Credit Corporation	35.9
Manitoba Forestry Resources Ltd.	5.0
Manitoba Crop Insurance Corporation	3.4
Manitoba Development Corporation	1.5
Other	1.5
	225.3
Repayment of advances, net:	
Manitoba Water Services Board	1.7
Other	1.2
	2.9
Net increase	$222.4

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The balances of the larger such advances were as follows (*in millions of dollars*):

	March 31 1982	March 31 1981	Increase (Decrease)
Manitoba Agricultural Credit Corporation	$161.3	$125.4	$35.9
Manitoba Housing and Renewal Corporation	64.3	64.6	(.3)
Manitoba Water Services Board	15.7	17.4	(1.7)
Manitoba Data Services	11.5	12.3	(.8)
Manitoba Crop Insurance Corporation	3.9	.5	3.4
St. Boniface Sanitorium re St. Amant Ward	2.5	2.7	(.2)
	$259.2	$222.9	$36.3

OPERATING FUND ASSETS AND LIABILITIES

Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank *(continued)*

The increase in investment in government agencies of $1.5 million shown in the foregoing statement is attributable to: a conversion of interest payable to the Province of $1.7 million by Manitoba Forestry Resources Ltd. to an investment in 9% non-cumulative income debentures maturing March 31, 2007 and a reduction of $.1 million in the preferred share investment of the Corporation by way of redemption from proceeds realized under The Pas Forestry Complex receivership; and a reduction of $.1 million in the debentures of Leaf Rapids Town Properties Ltd. by way of a repayment.

The increase in other investments of $.5 million in the foregoing statement represents the purchase by the Province of 42,950 shares of the Northland Bank at $12.50 per share.

The decrease in allowance for losses of $7.0 million shown in the foregoing statement is explained in the next section dealing with changes in the excess of liabilities over recorded assets.

The increase in sinking funds of $10.0 million shown in the foregoing statement arises from a net increase in payments by crown corporation in accordance with legal requirements.

OPERATING FUND ASSETS AND LIABILITIES

Excess of Liabilities over Recorded Assets

The particulars of excess of liabilities over recorded assets are as follows *(in millions of dollars)*:

	March 31 1982	March 31 1981	Increase (Decrease)
Accumulation of the excess of expenditure over revenue and advances to and investments in government agencies written off	$ 977.1	$701.0	$276.1
Allowance for losses of government agencies	114.0	121.0	(7.0)
	1,091.1	822.0	269.1
Less, reserve accounts	1.2	1.3	(.1)
	$1,089.9	$820.7	$269.2

Further particulars concerning the above increases and decreases:

Accumulation of excess of expenditure over revenue and advances to and investment in government agencies written off

The increase of $276.1 million represents the excess of expenditure over revenue for the year ended March 31, 1982 amounting to $251.1 million and the $25.0 million transfer of the Special Municipal Loan and General Emergency Fund balance to revenue commented on under the overview section of this report. The accumulated excess of expenditure over revenue includes expenditure for lasting tangible assets such as buildings and roads, and lasting intangible benefits such as education. It is offset by public debt which is being serviced from future revenue and/or additional borrowings.

Allowances for losses of government agencies

The decrease of $7.0 million in the allowance for losses of government agencies is mainly attributable to a decrease of $4.7 million in the allowance for Manitoba Development Corporation and $1.7 million for Manitoba Data Services as a result of decreases in the agencies' deficits during the year ended March 31, 1982. Other sundry net decreases amounted to $.6 million.

Reserve accounts

In my report last year I indicated that Treasury Board had directed that the reserve accounts pertaining to gravel pits and road machinery be discontinued effective with the fiscal year commencing April 1, 1982. I have recommended the abolishment of these reserves for several years and am pleased that they are being abolished effective with the fiscal year ending March 31, 1983. As a matter of information, the purchases made from these reserve accounts amounted to $2.0 million for the fiscal year ended March 31, 1982 ($1.5 million in 1981) and charges to appropriations by way of depreciation provision and deletion allowance amounted to $1.9 million ($1.6 million in 1981).

OPERATING FUND ASSETS AND LIABILITIES

Direct Public Debt

A summary of direct public debt and other data pertaining thereto is as follows *(in millions of dollars)*:

Direct public debt, net of sinking funds:

	March 31 1982	1981	Increase
Bonds, debentures and other securities	$3,193.9	$2,548.4	$645.5
Less, sinking funds	341.3	280.3	61.0
	$2,852.6	$2,268.1	$584.5

The direct debt is repayable in the following currencies:

Type of Currency	March 31 1982	1981	Increase (Decrease)
Canadian Dollars	$1,674.0	$1,462.0	$212.0
Foreign debt stated at exchange rates at the date the debt was incurred:			
Swiss Francs	406.6	385.3	21.3
United States Dollars	863.6	448.6	415.0
Japanese Yen	113.2	113.2	—
Deutsche Marks	67.6	67.6	—
European Units of Account	42.7	45.1	(2.4)
Hong Kong Dollars	26.2	26.6	(.4)
	1,519.9	1,086.4	433.5
	$3,193.9	$2,548.4	$645.5
Foreign debt calculated at exchange rates at each year end	$1,741.1	$1,330.1	$411.0

Foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1982:

	March 31 1983		1984		1985	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
Swiss Francs	$ —	$ —	$254.7	$333.4	$ —	$ —
United States Dollars	3.1	3.7	52.2	65.2	22.1	28.3
European Units of Account	.8	1.9	.8	1.9	1.1	2.6
Hong Kong Dollars	26.2	31.6	—	—	—	—
Japanese Yen	4.4	5.9	11.3	13.4	11.3	13.4
Deutsche Marks	—	—	—	—	67.6	76.4
	$34.5	$43.1	$319.0	$413.9	$102.1	$120.7

OPERATING FUND ASSETS AND LIABILITIES

Guaranteed Public Debt

The summary of guaranteed public debt and other data pertaining thereto is as follows *(in millions of dollars)*:

Guaranteed public debt, net of sinking funds:

	March 31 1982	1981	Increase (Decrease)
Securities guaranteed	$2,043.6	$2,066.9	$(23.3)
Less, sinking funds	221.8	209.2	12.6
	$1,821.8	$1,857.7	$(35.9)

The guaranteed debt is repayable in the following currencies:

Type of Currency	March 31 1982	1981	Increase (Decrease)
Canadian Dollars	$1,031.1	$1,049.6	$(18.5)
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	930.9	930.9	—
Swiss Francs	56.1	56.1	—
Deutsche Marks	19.9	23.0	(3.1)
Pounds Sterling	5.6	7.3	(1.7)
	1,012.5	1,017.3	(4.8)
	$2,043.6	$2,066.9	$(23.3)
Foreign debt calculated at exchange rates at each year end	$1,279.8	$1,249.8	$ 30.0

Guaranteed foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1982:

	March 31 1983		1984		1985	
Type of Currency	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
Deutsche Marks	$3.1	$5.1	$3.1	$5.1	$3.1	$5.1
Pounds Sterling	1.6	1.7	1.6	1.7	1.6	1.7
	$4.7	$6.8	$4.7	$6.8	$4.7	$6.8

Included in the guaranteed debt are amounts mostly serviced from the Consolidated Fund which are essentially the same as direct debt. These amounts consist of the following:

	March 31 1982	1981	Increase (Decrease)
Manitoba School Capital Financing Authority	$215.2	$215.2	$ —
University of Manitoba	21.3	21.5	(.2)
Brandon University	.1	.1	—
Various hospitals and other institutions	1.9	3.4	(1.5)
	$238.5	$240.2	$(1.7)

OPERATING FUND ASSETS AND LIABILITIES

Combined Direct and Guaranteed Public Debt

A summary of combined direct and guaranteed public debt and other data pertaining thereto is as follows *(in millions of dollars)*:

Combined direct and guaranteed public debt, net of sinking funds:

	March 31 1982	March 31 1981	Increase (Decrease)
Direct	$3,193.9	$2,548.4	$645.5
Guaranteed	2,043.6	2,066.9	(23.3)
	5,237.5	4,615.3	622.2
Less, sinking funds:			
Direct	341.3	280.3	61.0
Guaranteed	221.8	209.2	12.6
	563.1	489.5	73.6
	$4,674.4	$4,125.8	$548.6

The combined direct and guaranteed debt, net of sinking funds, by sources of servicing:

Serviced From	March 31 1982	March 31 1981	Increase (Decrease)
Consolidated Fund:			
Fully re:			
General purposes	$1,345.0	$984.9	$360.1
Mainly re:			
Schools	215.2	215.2	—
Other	16.7	19.8	(3.1)
	231.9	235.0	(3.1)
Partially re:			
Manitoba Agricultural Credit Corporation	106.0	98.8	7.2
Manitoba Housing and Renewal Corporation	52.2	29.5	22.7
Manitoba Data Services	11.0	11.4	(.4)
	169.2	139.7	29.5
	1,746.1	1,359.6	386.5
Manitoba Hydro funds	2,428.8	2,336.7	92.1
Manitoba Telephone System funds	467.4	403.2	64.2
Other funds	32.1	26.3	5.8
	$4,674.4	$4,125.8	$548.6

Purpose of debt and related sinking funds:

	March 31, 1982		
	Debt	Sinking Fund	Net Debt
General government programs	$1,618.1	$273.1	$1,345.0
Manitoba Hydro-Electric Board	2,660.2	231.4	2,428.8
Manitoba Telephone System	508.7	41.3	467.4
Manitoba School Capital Financing Authority	215.2	—	215.2
Manitoba Agricultural Credit Corporation	106.0	—	106.0
Manitoba Data Services	11.0	—	11.0
Manitoba Housing and Renewal Corporation	55.5	3.3	52.2
Manitoba Water Services Board	18.6	1.0	17.6
Federal-Provincial loan agreements	14.5	—	14.5
Universities	26.3	13.0	13.3
Municipal, hospital and other	3.4	—	3.4
	3,619.4	290.0	3,329.4
Total	$5,237.5	$563.1	$4,674.4

OPERATING FUND ASSETS AND LIABILITIES

Sinking Funds

A summary of sinking funds and other data pertaining thereto is as follows *(in millions of dollars)*:

Sinking funds applicable to:

	March 31 1982	1981	Increase
Direct public debt	$341.3	$280.3	$61.0
Guaranteed public debt	221.8	209.2	12.6
Agencies' non-guaranteed debt	2.5	1.8	.7
	$565.6	$491.3	$74.3

Sinking funds were invested as follows:

	March 31 1982	1981	Increase (Decrease)
Internal securities:			
Province of Manitoba	$ 77.0	$ 69.4	$ 7.6
Manitoba Hydro-Electric Board	264.5	251.7	12.8
Manitoba Telephone System	56.0	54.6	1.4
University of Manitoba	8.0	7.9	.1
	405.5	383.6	21.9
Other securities	16.4	18.4	(2.0)
Short-term investments	143.7	89.3	54.4
	$565.6	$491.3	$74.3

The sinking funds are maintained in accordance with legal requirements. They are basically being maintained by way of borrowing to provide funds for clearing the market of Manitoba securities and thereby placing the Province in a stronger marketing position. Manitoba securities are being purchased before maturity by the Department of Finance at prices approved by the Deputy Minister of Finance.

Other Actual and Contingent Liabilities and Commitments

The particulars of the more significant other actual and contingent liabilities and commitments are as follows:

Other actual liabilities

— Indebtedness to the Canada Mortgage and Housing Corporation by:

Manitoba Housing and Renewal Corporation — $239.9 million as at March 31, 1982 ($240.2 million at March 31, 1981). Under an agreement with Canada this indebtedness is serviced through operating deficits by Canada and Manitoba on an equal sharing basis. Manitoba's share of the deficit amounted to $17.6 million for the year ended March 31, 1982 ($17.9 million for March 31, 1981).

Manitoba Water Services Board — $2.9 million as at March 31, 1982 ($2.9 million as at March 31, 1981). The operations of the Manitoba Water Services Board are subsidized, the subsidy being $1.9 million for the year ended March 31, 1982 ($2.9 million for March 31, 1981).

— In accordance with legislation the Province is required to contribute on a matching basis one half of the pensions paid by the Civil Service Superannuation Fund, except for the agencies' portion, and by the Teachers' Retirement Allowances Fund. There are also provisions for adjustment payments. The matching and adjustment payments for the two fiscal years were as follows *(in millions of dollars)*:

	March 31, 1982	March 31, 1981	Increase
Civil Service Superannuation Fund	$ 5.6	$ 4.9	$ .7
Teachers' Retirement Allowances Fund	12.9	12.0	.9
	$18.5	$16.9	$1.6

OPERATING FUND ASSETS AND LIABILITIES

Other Actual and Contingent Liabilities and Commitments *(continued)*

Other actual liabilities (continued)

In accordance with a formula supplied by the actuary the employer's actuarial liability of the Province for the Civil Service Superannuation Fund has been established to be $159.6 million as at December 31, 1981 ($138.9 million as at December 31, 1980). There has been no employer's actuarial liability of the Province established for the Teachers' Retirement Allowances Fund but it can be logically concluded that it would approximate the total of the employees' fund which amounted to $222.1 million as at December 31, 1981 ($183.9 million as at December 31, 1980.)

These actuarial liabilities are massive amounts which will continue into perpetuity; their impact on the cash demands of the Province under the "pay-as-you-go" plan, which is a much more vital factor, is difficult to comprehend.

In order to assist with this matter, I asked the actuary to provide a cash projection for the employer's pension payments to the Civil Service Superannuation Fund. The actuary has provided such a projection for 25 years, commencing with the year 1978 and concluding with the year 2002. Pertinent excerpts from this projection were included in my last year's report.

In essence, based on a constant membership, the projection indicated the annual employer's pension payments as a percentage of salaries to be 1.5 percent in 1978 and progressively increased to 7.2 percent in 2002. Maturity of the Fund, when pension payments level off, was not attained by the year 2002. However, on the basis of a rough estimation one could conclude that pension payments as a percentage of salaries are not likely to exceed 10 percent at maturity of the Fund. As a matter of comparison, the actual amount of employer's pension payments as a percentage of salaries for the year ended December 31, 1981 was 2.0 percent (1.9 percent for 1980).

Such a cash projection was not obtained for the Teachers' Retirement Allowances Fund; but, because of the similarity of this Fund with the Civil Service Superannuation Fund, it can be concluded that if a projection had been obtained for the Teachers' Retirement Allowances Fund the results would have been essentially the same. The actual amount of the employer's pensioin payments to the Teachers' Superannuation Allowances Fund as percentage of salaries for the year ended December 31, 1981 was 3.3 percent (3.5 percent for 1980). The higher percentage of this plan as compared with the Civil Service Superannuation plan is basically accounted for in the Teachers' Retirement Allowances plan being a significantly older plan. The reason for the decrease in the 1981 percentage, as compared with the 1980 percentage, when normally it should have increased, arises from an approximate 3 percent increase in contributing participants in 1981.

Other contingent liabilities in addition to guaranteed debt

- Flyer Industries Limited performance guarantee for $20 million. In addition there is a further performance guarantee of $30 million by way of an encumbrance of the Manitoba Development Corporation's borrowing authority under Part II of The Development Corporation Act.
- Manitoba Hydro-Electric Board notes for $46.2 million
- Manitoba Telephone System notes for $.5 million
- Bank guarantees for $5.3 million

Commitments

The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1981 granted authority to the Government to commit expenditures not to exceed $130.0 million. The commitments amounted to approximately $82.8 million as at March 31, 1982.

OPERATING FUND ASSETS AND LIABILITIES

Other Actual and Contingent Liabilities and Commitments *(continued)*

Borrowing authority

The following is a summary of the borrowing authority *(in millions of dollars)*:

Appropriation Acts — general government programs	$ 93.6
Loan Acts — self-sustaining programs	274.2
Total unabated authority	367.8
Encumbered authority	39.5
	$328.3

More detailed information concerning the borrowing authority is included in the Public Accounts.

TRUST FUND ASSETS AND LIABILITIES

Administered Trust Funds

Administered trust funds consist of the following *(in millions of dollars)*:

	March 31 1982	March 31 1981	Increase (Decrease)
Assets			
Amount due from Operating Fund	$313.4	$244.4	$ 69.0
Cash and investments	388.6	320.1	68.5
Total administered funds	$702.0	$564.5	$137.5
Liabilities			
Sinking funds for securities issued by government agencies	$224.3	$211.0	$ 13.3
Funds deposited with the Minister of Finance for investment	419.7	305.7	114.0
Banking facility accounts	8.5	6.8	1.7
Operating trusts	6.1	5.1	1.0
Reserves and other miscellaneous accounts	43.4	35.9	7.5
Total administrated funds	$702.0	$564.5	$137.5

The trust transactions for each account are summarized in the Public Accounts in a statement which shows for each account the balance as at March 31, 1981, the receipts and payments for the year ended March 31, 1982 and the balance as at March 31, 1982.

The significant increase of $114.0 million in funds deposited with the Minister of Finance for investment mainly arises from: recent borrowings for utilities resulted in increased funds on hand for short-term investment of $43.8 million; Manitoba Public Insurance Corporation increase of $43.9 million resulting from rate increases and accelerated cash transfers from agents through system improvements; and Teachers' Retirement Allowances Fund increase of $16.9 million resulting from larger investments on a short-term basis because of the advantageous short-term interest rates.

The significant increase of $7.5 million in reserves and other miscellaneous accounts mainly arises from the Province setting aside in trust holdbacks under contracts of $4.6 million to comply with the requirements of the new Builders' Lien Act.

The remaining increases, such as sinking funds, arise from normal growth and fluctuations.

Custodial Trust Funds

Custodial trust funds consist of the following *(in millions of dollars)*:

	March 31 1982	March 31 1981	Increase (Decrease)
Assets			
Funds in custody of the Minister of Finance and other departments	$587.2	$537.9	$49.3
Liabilities			
Manitoba School Capital Financing Authority	$214.1	$208.4	$ 5.7
Civil Service Superannuation Fund	207.2	185.0	22.2
Workers Compensation Board	121.2	112.0	9.2
The Public Trustee	28.1	22.0	6.1
Manitoba Hospital Capital Financing Authority	5.2	4.3	.9
Other	11.4	6.2	5.2
Total custodial funds	$587.2	$537.9	$49.3

The increases in the custodial trust funds mainly arise from normal growth and fluctuations except for a more significant increase in the Public Trustee trust funds resulting from a substantial increase in estates being administered.

REVENUE AND EXPENDITURE

The accounting policies with regard to the presentation of revenue and expenditure for the year ended March 31, 1982 are stated in the Public Accounts and are reproduced in Exhibit 12 of this report. The policies, except for the transfer to revenue of the balance in the Special Municipal Loan and General Emergency Fund which is commented on below and in the Assets and Liabilities section of this report, are consistent with those of the previous year.

A summary statement of revenue and expenditure is included in the Public Accounts and is reproduced in this report in Exhibit 9. The statement compares the actual revenue and expenditure for the year ended March 31, 1982 with the Estimates for that year and also with the actual amounts for the preceding year.

The Department of Finance provides explanations in the Public Accounts for significant revenue variances, as compared with the Estimates and with the previous year; variance explanations for expenditure are only provided as compared with those of the previous year. A comparative statement of departmental expenditure by object code with variance explanations is also provided in Public Accounts. We have reviewed these variance explanations and found them to be appropriate.

The excess of expenditure over revenue for the year ended March 31, 1982 as reflected in the Public Accounts amounted to $251.0 million and was $31.2 million more than the estimated amount of $219.8 million. This variance is accounted for by an increase in revenue over the estimate of $19.6 million and an increase in expenditure of $50.8 million over the estimate. The actual and estimated excess of expenditure over revenue is stated on the basis of a transfer to revenue of a $25.0 million balance of the Special Municipal Loan and General Emergency Fund. If this balance was treated the same way as in the preceding fiscal year, as a reduction to the account for Excess of Liabilities over Recorded Assets, the actual and the estimated excess of expenditure over revenue for the fiscal year ended March 31, 1982 would have been $25.0 million larger.

The increase in revenue over the estimate mainly arises from revenue from individiual income tax being substantially higher than the estimate. This increase of $63.7 million was offset by revenue which was less than the estimate: mainly revenues from Canada for established programs by $19.0 million and equalization by $10.4 million; and, corporation income tax by $17.3 million.

The actual total expenditure shown in the summary statement of revenue and expenditure was $50.8 million more than the estimate. This variance mainly arises from additional expenditure approved by a special warrant of $44.2 million for health facilities' salary settlements, medical fee rate increases and other adjustments.

SPECIAL WARRANTS

A summary of special warrants issued by departments on a comparative basis for the 1982 and 1981 fiscal years is included in Exhibit 6 of this report. The total special warrants issued for the year ended March 31, 1982 of $105.5 million exceeded the total amount issued for the year ended March 31, 1981 of $73.1 million by $32.4 million.

As in the preceding year, when all the special warrants were more than offset by a reduction in expenditure approved under the supply and statutory legislation, most of this year's special warrants were also offset in the same manner. However, there was an unforeseen additional expenditure approval by special warrant for the Manitoba Health Services Commission for increased health facilities' salary settlements and other costs of $24.6 million, medical fee rate and volume increases of $11.9 million and for other various adjustments, with the total of the special warrant being $44.3 million. As a result, the total actual expenditure of $2,431.9 million for the fiscal year ended March 31, 1982 exceeded the approved expenditure of the Legislature under the Main Supply, Supplementary Supply and Statutory Authority by $38.3 million.

Special warrants are issued in accordance with section 42(1) of The Financial Administration Act, and, we review the documentation supporting the requests for special warrant to see that special warrants are in compliance with this legislation. As indicated previously, most of the special warrants are issued for the purpose of realigning expenditure rather than approving additional expenditure but this information is not included in the special warrants. This matter was discussed during the last session of the Public Accounts Committee and the Department of Finance undertook to review it. However, there has been no change as yet in the kind of information being provided in the special warrants.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Introductory Comments

In my last year's report under introductory comments I outlined the basic legislative authority for the management system, its operations and the Government's documented management philosophy and process. I also indicated that more documentation was still required by way of guidelines and directives to complete a reasonable working blueprint for management direction.

During the year under review the Government has reaffirmed the documented management policies, etc. and has issued guidelines to expand on the documentation already in place. In view of the importance of documentation in management direction, I believe it would be useful to restate the outline included in my report last year, to provide an outline of the guidelines issued this year and to comment on the present position.

In my last year's report I stated the following:

"The Government's central management system mainly stems from the Executive Government Organization Act, the Financial Administration Act and the Civil Service Act. The Executive Council, by an order of the Lieutenant Governor in Council, in accordance with the Executive Government Organization Act, delegated matters relating to the management of the executive government to a committee of the Executive Council known as the Treasury Board. The Financial Administration Act and the Civil Service Act also provide for certain central management functions to be carried out under these Acts.

The Treasury Board, the Department of Finance and the Civil Service Commission are mainly responsible for the operations of the central management system which includes appropriate administrative and financial controls. They are also mainly responsible for producing information required from the central system for action by and accountability to the Legislature. Their functions are explained in more detail in the following paragraphs.

The Treasury Board's functions are set out in an order of the Lieutenant Governor in Council. They include responsibility for overall administrative co-ordination and establishment of policy for systems and operations that are central or common to all or a number of departments. This includes providing direction and policy concerning the longer term financial position of the Government and in fiscal planning; establishment of budgetary guidelines and co-ordination of the budget process; approving changes in spending levels and staff complements to adjust levels of program delivery to the changing needs of government; and reviewing financial status reports of the departments and receiving an accounting from each department for any significant variations to the approved budget plans. The Treasury Board does not have any staff of its own. Its support services are mainly provided by staff of the Department of Finance and to a lesser extent by staff of the Civil Service Commission.

The functions of the Department of Finance are set out in the Financial Administration Act. They include responsibility for all matters relating to the financial affairs and accounts of the Government. This includes the development and implementation of a central financial management and reporting system for the Government. The Department is also responsible for the preparation of the Budget, the Estimates and the Public Accounts for presentation to the Legislature. As mentioned previously the Department provides most of the support services for the Treasury Board. The Deputy Minister of Finance is the Secretary of the Treasury Board.

The Civil Service Commission's functions are set out in the Civil Service Act. They include responsibility for personnel administration, personnel training, management resource inventory and staffing requirements. As indicated

Introductory Comments *(continued)*

previously, the Commission's staff provide some support services for the Treasury Board.

The Government through the Treasury Board has been enunciating the management philosophy and process. The philosophy and process is of a kind which mainly focuses on results, accountability and decentralization of decision-making with the central system monitoring performance in accordance with established policies and guidelines. To this end the Treasury Board adopted as a policy a management by objectives and results concept as the Government's management style and standard. This is a process whereby departments make commitments to the attainment of measurable objectives in exchange for the resources needed to achieve these objectives. They also have undertaken to report on actual achievement as compared with the agreed achievements and to provide explanations for any significant deviations."

Documentation of the management process as an effective communicative mechanism is generally done within the framework of the management cycle. The management cycle is made up of five basic management functions; planning, organizing, staffing, directing and controlling.

Treasury Board has now issued management guidelines with respect to the planning function of the management cycle. These guidelines state "Planning is the process of identifying, considering and setting objectives, determining the best means of achieving those objectives and allocating responsibility and resources to meet them. It entails what is to be done, what resources are required and how the results are to be measured and evaluated. Planning determines the direction the Department is to go and provides the basis for management control to ensure that it follows that direction." Treasury Board has also issued instructions that training be carried out concerning the planning function so that it will be useful in the estimates process. A plan is being worked out to provide training commencing with the Deputy Ministers in October 1982.

The remaining functions of the management cycle are briefly defined as follows:

- Organizing consists of classifying and dividing the work into manageable units.
- Staffing consists of determining the requirements for and ensuring the availability of personnel to perform the work.
- Directing consists of bringing about through effective leadership the human activity required to accomplish objectives.
- Controlling consists of ensuring the effective accomplishment of objectives.

The increased emphasis during the past several years on management improvement in a rapidly changing environment is certainly a commendable effort which has already provided and will continue to provide more effective results. I also believe that the approach, which has been and is being taken, to consolidate and build upon previous initiatives rather than making dramatic shifts in direction is a correct one. Along these lines, realistic plans and targets should be established for proceeding with guidelines and training for the remaining functions of the management cycle in order to put them into use as soon as practically possible. As indicated in my previous reports that as progress is being made in this area it is possible for my office to carry out more effective audits in the evaluation of performance in accordance with the improved requirements.

In previous years I have been reporting on deficiencies and improvements in the central management system. Comments in the following sections under the

Introductory Comments *(continued)*

headings of Department of Finance and Civil Service Commission, provide an updating on the matters previously reported.

Department of Finance

Budgeting, accounting and reporting systems

Budgeting, accounting and reporting systems play a major role in the management process described in the preceding introductory comments. It is an essential accountability mechanism in a decentralized management system requiring a high degree of delegation of responsibility.

The Department of Finance communicates policies and procedural requirementts for the systems by way of manuals and directives. There is also an ongoing review mechanism in place for revising and updating the manuals and directives based on experience. This is an important function which undertakes to ensure that there is an appropriate balance between formal and informal controls in order to minimize excessive red tape and operational frustrations.

Training also plays a very important role in the effective operations of the budgeting, accounting and reporting systems. Training sessions and workshops are arranged by the Training and Development Branch of the Civil Service Commission with a major input by the Department of Finance. Senior auditors of my Office also participate on a consultative basis in training development. A review of departmental management control systems by the Department of Finance in two departments in 1979-80 proved to be an effective means of assisting the departments in responding more effectively to the requirements of the central system. Because of staff shortages the reviews have not been continued. In my last year's report we recommended that every effort be made to continue with this important work. Our views have not changed in this matter and we are pleased that action is being taken for the continuation of these reviews.

In my previous reports I indicated that significant progress had been made in improvement in the budgeting, accounting and reporting systems and also indicated that there was still substantial room for further improvement. This same observation continues to be valid. In order to indicate more specifically the progress and recommendations for further improvement, comments are being provided in the following paragraph under the headings of the major reporting documents. These are public and internal documents and consist of: annual budget; legislative expenditure estimates; departmental expenditure estimates; public accounts; departmental annual reports; Department of Finance annual financial report; quarterly financial report; and monthly financial statements.

Annual Budget

The annual budget includes the estimates of revenue, expenditure and the deficit for the year.

The revenue is determined on a systematic basis and reflects the best known position at the time the budget is presented. During the course of our audit of the revenue variances between actual and estimated, we check the documentation to verify the reasonableness of the estimates. We comment on the results of our verification under the revenue and expenditure section of this report.

The expenditure amount in the budget is represented by the Expenditure Estimates and Supplementary Expenditure Estimates submitted to the Legislature for approval. However, these Estimates do not necessarily reflect the best known total expenditure position at the time of the budget. They include a nominal amount for salary adjustments and there is no provision for contingencies, such as aforeseen expenditure approved by special warrants. This matter was commented

Department of Finance *(continued)*

Annual Budget (continued)

on in my previous reports and discussed in the Public Accounts Committee but nothing conclusive has been decided on. It is questionable as to whether a nominal amount should be included in the Expenditure Estimates for approval by the Legislature. It would seem to be more appropriate to include an amount for these contingencies in the budget with actual approvals to be made subsequently either by special warrant or by supplementary supply. In any event, the expenditure in the budget, just like the revenue, should be the best known amount at the time of the budget so that there is no uncertainty as to the bottom line position. This is an important amount used not only for tracking the actual results but also in the consideration of the Province's debt position. It is recommended that the budgeting process be reviewed and appropriate changes introduced which would remove any uncertainty as to the most up-to-date position being disclosed in the budget.

Legislative Expenditure Estimates

This is a satisfactory document for formal approval of the authorized expenditure by the Legislature except for any nominal amounts such as salary adjustments. As noted under the foregoing annual budget section it is questionable as to whether the Legislature should be asked to approve nominal amounts. Changes should be considered along the lines commented on previously. A supplement to the Expenditure Estimates, providing a breakdown by major functions as commented under the heading of Annual Financial Report of the Department of Finance of this section, would also be a useful improvement to this document.

Departmental Expenditure Estimates

These are internal documents submitted by departments to the central management system. In my last year's report I indicated that: the usefulness of these documents would be significantly increased if they included more refined particulars of quantified input and output data and were made available to the Legislature; and that the Minister of Finance was receptive to this suggestion. The Department of Finance has issued a supplementary document in support of its 1982-83 Estimates. This document was developed on a trial basis and includes substantial additional information of a kind which was usually previously provided in response to questions raised in the Committee of Supply. The document did not include output data; the Government's information in this area is not as yet sufficiently refined for its inclusion in a public document. The supplementary information was only provided at the time the Estimates were considered; it would have been much more useful if it had been made available some reasonable period of time in advance. A decision has not been made as yet as to how many other departments will be providing supplementary documents in support of 1983-84 Estimates. The comments in Committee of Supply by a member of the Opposition were supportive of this information. I am looking forward with interest to the progress in the development of this important area of the Estimates process.

Public Accounts

The Public Accounts now provide effective information on the overall financial position and operations of the Government with appropriate comparisons and variance explanations. On the other hand, the section dealing with departmental accountability, consisting of in excess of 100 pages annually in the Public Accounts, is ineffective. Detailed expenditure breakdown in this section is provided by departments by appropriations and subappropriation and by object code classifications. However, there is no comparison of this breakdown with either the estimates or with the previous year's actual expenditure, thereby making it impossible to carry out a comparative evaluation in order to ascertain what

Department of Finance *(continued)*

Public Accounts (continued)

significant changes had taken place, as for example in travelling expenses, etc., and the reasons for these changes. To the extent that departmental expenditure continues to be presented in the Public Accounts it should be provided on a comparative basis in a much more meaningful manner. However, it is recommended that the more detailed departmental information be transferred from the Public Accounts to the Departmental Annual Reports, and that the Annual Reports provide comparison of this data with the departmental detailed estimates and with the previous year's actual expenditure together with appropriate variance explanations. If the Public Accounts Committee is to effectively carry out a review of departmental performance such information is essential. As I have stated in my previous reports, the Public Accounts Committee's involvement in this area would be a positive force in the improvement of departmental accountability and performance. There is every reason to conclude that the Committee would be just as effective in this area as it has been in its review for many years now, mainly on a nonpartisan basis, of the Province's financial position, its central systems and its operational results. The evidence in the recorded proceedings of the Public Accounts Committee meetings clearly indicates the significant contributions of the Committee towards the substantial improvements which have been made in this general area. I again urge the Public Accounts Committee to press for the kind of departmental accountability data which is being suggested in this report and to proceed with departmental performance reviews on a rotational basis.

Departmental Annual Reports

These public reports presently provide information from the departments' public relations point of view and do not provide comparison of expenditure with the detailed estimates or with those of the previous year with appropriate explanations for variances. As indicated in the comments under Public Accounts, these reports should provide data and be organized in such a way as to provide effective departmental performance accountability. This is absolutely essential if there is to be a complete public accountability cycle, a matter which I have been recommending for an number of years now. I was pleased to note from a recent directive that the annual reports are to be standardized with their primary purpose being to provide an accountability based on the approved Estimates for the activities and programs of the departments for the year.

Department of Finance Annual Financial Report

In line with the objective of making progressive improvements in the financial reporting system in order to strengthen the accountability of government to the public, the Department of Finance has been issuing a summarized financial report commencing with the fiscal year ended March 31, 1980. This is a very useful report now, but it could be even more useful if more of the information in it was presented on a comparative basis with explanations for changes. For example, in each of the reports for the two years for which reports have already been issued, a percentage breakdown of expenditure in graphic form was provided by major functional categories. Comparatively stated, the breakdown shown in the reports is as follows *(in percentages)*:

	1980-81	1979-80
Health and Community Services	39	37
Education	19	20
Economic and Resource Development	18	19
Housing and Income Assistance	10	9
General Government Services	7	8
Public Debt	4	4
Justice, Protection and Correctional	3	3
	100	100

Department of Finance *(continued)*

Department of Finance Annual Financial Report (continued)

A review of the foregoing comparison clearly shows the usefulness of comparisons and the need for explanations of changes for effective evaluation.

As indicated under the foregoing Legislative Expenditure Estimates section, this kind of a breakdown should be prepared for the estimated expenditure and provided on a comparative basis as additional information in the Estimates. It would be useful in the consideration of resource allocation and the implication of changes.

Quarterly Financial Report

This document is issued publicly regularly on a quarterly basis. It provides a progressive financial position of the Province during the fiscal year and an updated projection of the financial position for the fiscal year. This reporting procedure publicly provides essential financial information on a timely basis. It also serves as an effective monitoring mechanism for the central management system requiring accountability from departments in a prompt and disciplined manner.

Monthly Financial Statements

The Department of Finance produces monthly financial statements for its own monitoring purposes and obtains explanations from departments for significant variances to ensure that appropriate corrective action is being taken promptly. The Department of Finance also produces financial reports by responsibility centres for departmental managers for management purposes. Refinements are being made to these statements and internal reports on a progressive basis to improve their usefulness in the managing process.

Grant accountability

Approximately 60 percent of the Province's expenditure consists of grants. Most of these grants are made to public entities which are mandated to carry out public functions and are publicly accountable. Some of these entities, such as universities, are audited by my Office in the regular manner, while others, being municipalities, schools and hospitals for which grants amount to about 35 percent of the Province's expenditures, are audited by audit firms in accordance with similar audit requirements as those of my Office. With regard to these entities, we have been working for a number of years now with officials and auditors to establish auditing and accountability standards to be consistent with those of the Province. I am pleased to report that substantial progress has been made; this is commented on more specifically in the sections of this report under the heading of Departments and Agencies Operations: Department of Education; Department of Municipal Affairs; and Manitoba Health Services Commission.

Grants are also being made to organizations for providing specific services or undertakings, for which departments are carrying out inspections and monitoring to ensure that the quality of the services and undertakings are satisfactory. Our inspection audit work undertaken in the past year concerning these organizations continued to identify a lack of direction as to the purpose of the grant funds, a matter which was reported last year. The authorizing orders-in-council continue to be written in a very general manner so that the objectives to be realized through the use of the grant funds are not clear, resulting in accountability problems. Officials have been considering these matters but there has not been any significant improvement in this situation as yet.

Department of Finance *(continued)*

Payroll system

Last year I reported that Treasury Board had retained a consulting firm to review the recommendation of the Study Team and advise it on the course of action to be taken concerning a replacement for the present payroll system. The consultants have since confirmed the recommendation of the Study Team, the required software package has been acquired and the Department of Finance is proceeding with implementation of the package. It is planned that the system will become operational in January 1984. My auditors are reviewing the implementation process and will be carrying out a post-implementation audit.

Electronic data processing

Last year I reported that in order to address the staffing problems of the data processing function and having regard for its broad responsibilities, Treasury Board had arranged for a consultant to conduct a study and make recommendations for organization and staffing of the central data processing function.

The consultant who was engaged was not able to undertake this assignment. Instead, a position at the Assistant Deputy Minister level was established in December 1981 and a qualified officer was appointed to carry out a study concerning information management in the Manitoba Government including the staffing problems of the data processing function.

In accordance with recommendations arising from the aforementioned study, Treasury Board approved the establishment of an Information Management Division in the Department of Finance and the officer carrying out the study was appointed to be in charge of the Division. Treasury Board also approved the mandate of the Division to be as follows:

> "To provide a planning frame-work which would, through policy and procedure, define minimum central concerns necessary to allow the communication and integration of information across the government while stimulating and supporting the planning process necessary to address information management issues in a decentralized manner, in accordance with the needs of individual organizations of the government; and —
>
> To apply to all Manitoba Government Departments, Crown Corporation and Agencies and to include responsibility and authority for:
>
> — Planning and implementing Information strategy
> — Setting and enforcing Information policy
> — Researching and evaluating technological advances
> — Providing technical assistance as required to Departments, Crown Corporations and Agencies."

The Division is now in the process of organizing and staffing to carry out its mandate. My Office has been involved during the study and continues to be involved in the formative stages. We will be carrying out an audit in due course when the Division becomes operationally functional.

Internal audit function

Last year I reported that Treasury Board had approved an internal audit policy whereby departments would have an internal audit function to carry out a systematic review and appraisal of all departmental operations for purposes of advising management as to the efficiency, economy and effectiveness of internal management policies, practices and controls. It was recognized that the development of this function would take time and that certain departments would

Department of Finance *(continued)*

Internal audit function (continued)

be proceeding with its development sooner than others because of the types of programs being administered, etc. Departments were encouraged to have this function established within three years.

The Comptroller's Division of the Department of Finance hs been working with line department personnel to assist them in developing or improving the internal audit function in their departments. The Division also organized and presented an introductory course to familiarize departmental representatives with the concepts of broader scope internal auditing being carried out in other jurisdictions. An audit firm, retained under a contract approved by Treasury Board in August 1981, assisted the Division with the organization and presentation of this course.

In the continuation of the implementation of the internal audit policy, Treasury Board recently approved a consulting contract with the same audit firm to develop an internal audit plan and perform an internal audit for the Department of Government Services. Government personnel will be working with the consultants on this undertaking. This undertaking has as its objective the development of a broad scope internal audit methodology that can be used by internal audit personnel in this and other departments and agencies. Some of the benefits expected are: a transfer of knowledge from the consultants to departmental personnel; establishment of the internal audit function within the Department of Government Services; and the development of an internal audit plan for this Department.

Several departments are improving their internal audit functions to meet the standards set in the policy approved by the Treasury Board, and others are presently going through an evaluation process as to the type of function which might best serve their purpose. In addition, the Department of Crown Investments is working with crown agencies to review the internal audit functions within those organizations as may be appropriate. I am pleased with the progress which is being made in the improvement of the internal audit function as an effective tool in good management.

Civil Service Commission

Managerial resources

In my last year's report I stated that the Commission, with the approval of Treasury Board, was developing and implementing a comprehensive managerial resources management plan. Employees included in the plan are mainly those excluded from the bargaining agreement. The development and implementation of the plan is being carried out in two sections. One section is concerned with the review and evaluation of the managerial classification and compensation plan with a view to establishing a plan that would attract and retain properly qualified managers. Another section is concerned with managerial inventory, performance evaluation and managerial training so that not only will managerial positions be staffed with qualified managers, but there will be a continuous supply of qualified managers to staff vacancies, mainly by way of advancement.

The section dealing with the compensation plan, with the assistance of management consultants, has been completed. However, it has not been accepted for implementation as yet. The most recent position stated by the Government on this issue is that it is still under review and that the Government does not consider it a matter of priority at this time.

I have two concerns regarding compensation under the present plan for employees in the excluded categories. The first is that the review for the recently completed management classification and compensation plan has identified a

Civil Service Commission *(continued)*

Managerial resources (continued)

number of significant inequities in the plan now in use. The second is that significant adjustments in remuneration have been made through the implementation of revised pay plans in recent years for senior managers in many of the crown agencies and other organizations funded by the Province with the result that senior administrators in these entities are in many instances remunerated at appreciably higher levels as compared to those of the Government. The Government has recently undertaken a survey to identify the extent of the discrepancies in remuneration levels between its senior administrators and those of crown agencies and other organizations funded by the Province. The aforementioned significant inequities will have to be attended to if serious difficulties in public administration are to be avoided.

With respect to the section of the plan dealing with managerial inventory, performance evaluation and managerial training, some further progress has been noted. Concerning the matter of performance evaluation, the Commission has now developed a procedure which can be implemented by departments on a voluntary basis. The Commission is working actively with the departments and their personnel managers to encourage the adoption of effective performance evaluation systems. The area of managerial training has also received attention by the Commission. During the months of June to August, 1982 the Commission put on a number of trial courses in various aspects of management. These courses appear to have been well received and the Commission intends to implement courses throughout the next fiscal year on a regular basis. I am encouraged by these steps. My Office will continue to review the Commission's managerial training courses, particularly as they relate to the management philosophy and process adopted by the Government.

I appreciate the difficulties associated with the development and implementation of a comprehensive managerial resources management system. However, because of its importance it should be refined and functioning at a satisfactory level as soon as practically possible. I repeat what I said in my last year's report. This system's level of effectiveness is even more important than that of the management information system. Satisfactory administration can be carried on with good managers even when the management information system is below standard; the same thing cannot be said for a reverse situation. The quality of the Province's administration is highly dependent on a successfully functioning comprehensive managerial resources management system.

Personnel system

In my report last year I indicated that departments' personnel staffs were not utilizing most of the reports generated by the personnel system since they felt the reports did not provide the necessary information on a timely basis. The Commission advised us that it planned to hold seminars for departmental personnel staff to provide them with a better understanding of the information supplied by the personnel system but this was not done. During the year under review the Commission concentrated its effort on reassessing the existing personnel system to determine how it could be improved, taking into account the implications of the new payroll system which is under development.

In March 1982 as part of their reassessment the Commission requested departments to review their experience with the personnel system and advise them of problems encountered with the system.

In July 1982 the Commission advised personnel managers throughout the government that during the reassessment process they had established a number of

Civil Service Commission *(continued)*

Personnel system (continued)

projects to analyze and resolve critical system's problems and had undertaken a number of enhancements. The Commission also asked the personnel managers to communicate directly with them on system's requirements and problems being encountered to enable it to respond by making appropriate adjustments.

The new payroll system scheduled for implementation in January 1984 will require new common payroll/personnel input documents and personnel system modifications so that the two systems can be effectively interfaced. The Commission is planning to hold seminars in conjunction with the implementation of the new payroll system to explain the new forms and procedures. It is expected that the adoption of common payroll/personnel forms and the modification to the personnel system will improve the information in the reports generated by the personnel system and provide it on a timely basis.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Attorney-General

Provincial Judges Court — Public Safety Building

In my reports to the Legislature for the past several years I indicated that actions at the Provincial Judges Court — Public Safety Building concerning parking violations and other traffic related offenses were considerably in arrears. This condition continues. As of April, 1982 approximately 44,000 (33,000 as of April, 1981) parking cases had not gone to court as yet and approximately 7,750 (10,450 as of April, 1981) adjudicated cases, which were processed through the court, did not have the required driver's license suspension notices or warrants of committal issued.

There has been an improvement in the adjudicated cases and officials are now taking further steps to correct this situation. On the other hand, there has been a significant deterioration in parking cases in arrears creating a most unsatisfactory condition. Legislation has been passed in 1982 to correct this matter but it has not been proclaimed as yet. This legislation, when proclaimed, will dispense with the need to personally serve a summons and will allow penalties to be assessed against driver's licenses and/or motor vehicle registrations. Driver's licenses and/or motor vehicle registrations will not be renewed until the penalties are paid. It is recommended that proclamation of the legislation be expedited so that corrective action will take effect as soon as possible.

Department of Education

Financing of school divisions

As indicated in my last year's report, the Province changed its method of financing school divisions so that after April 1 of each year the Province is up-to-date in its financing for the remainder of the schools' calendar fiscal year. This method became fully effective with the Province's payments in April 1981. Because of the potential for real additional savings for the taxpayers, I recommended in my last year's report that consideration be given to accelerating payments prior to April in order to provide school divisions with additional working capital during the period January to March and thereby avoid financing during this period by way of bank loans. There has been no change concerning this matter as yet.

The Province's share of the school costs for the period January 1, 1982 to March 31, 1982, which the Province budgeted for in its fiscal year ending March 31, 1983 and paid in April 1982, was estimated to amount to approximately $66 million ($60 million for preceding year). This deferment of costs into the subsequent fiscal year is also commented on in the Assets and Liabilities section of this report.

In my last year's report I indicated that the changes in financing of school divisions should reduce significantly the school divisions working capital financing costs in 1981 with a further reduction in 1982 when the full impact of the changes are realized. However, these financing costs only decreased by $.7 million in 1981 from $8.4 million in 1980 to $7.7 million in 1981. The reason for the small decrease only is accounted for by the significant increase in interest rates charged to school divisions, from an average of 14.4 percent in 1980 to an average of 19.4 percent in 1981. However, as a result of the changes in financing there was a significant reduction in loans outstanding with banks and municipalities as at December 31, 1981 as compared with that of the previous year; banks — $23 million at December 31, 1981 and $42 million at December 31, 1980; and municipalities nil at December 31, 1981 and $22 million at December 31, 1980. Had there not been such a significant increase in interest rates during the year under review the reduction in working capital financing costs would have been substantial.

In my previous reports I recommended that the regulations also be changed to provide for more timely payments by municipalities. There has been no change made concerning municipalities as yet. As indicated in my previous reports the effect of the

Department of Education *(continued)*

Financing of school divisions (continued)

delay in payments was partially offset by a number of municipal corporations making advances to school divisions at lower rates of interest than those of the banks. However, as can be noted from the preceding paragraph the loans from municipalities as at December 31, 1981 were nil. I again recommend that an appropriate change be made to the regulations concerning municipal payments so that savings can be realized for the benefit of taxpayers.

I have previously been reporting that the Department of Education was not exercising effective control over capital borrowing approvals. This matter has now been attended to and resulted in several school divisions being required to obtain retroactive approvals.

Accountability for grants to schools

In my report last year I stated that the Department was in the process of developing and implementing a new standardized program budgeting and accounting system for schools. Progress is being made in the development of the system and phases of it are being implemented within a few selected school divisions which have volunteered to test it. After refinements are made to the system as a result of the testing and critical inputs from various interested sources such as the Manitoba Association of School Trustees, the Manitoba Association of School Superintendents, the Manitoba Teachers Society, the auditors and the Department of Education, it will be implemented for all schools. My Office is continuing to be involved in this undertaking.

I indicated in my report last year that guidelines concerning the broader audit reporting requirements of the new Public Schools Act were sent out by the Director of Finance of the Department of Education to school boards, officials and auditors. Discussions were held during the year between the Director of Finance and various concerned groups and individuals, including the Manitoba Association of School Trustees and the Manitoba Association of School Superintendents, which have resulted in further clarification of these guidelines. The auditors of the school divisions are now issuing reports based on audits for the fiscal year ended December 31, 1981 to comply with the broader audit reporting requirements of Section 41(12) of the Public School Act as defined by the guidelines. These auditors' reports include observations and recommendations which are contributing towards improved operations and accountability.

The kind of communication, interaction and cooperation, which is resulting from the aforementioned undertakings, is creating an understanding which will not only ensure that resources and funds are being managed and accounted for in accordance with appropriate standards but will also maximize benefits from new and innovative ideas which are proving through experience to be effective. We will continue to monitor with interest the progress of the developments in these areas.

Department of Government Services

Over-commitment of spending authority

I reported last year that the commitments in excess of spending authority had been reduced from $1.4 million for the year ended March 31, 1980 to $.8 million for the year ended March 31, 1981. I am pleased to report that this problem has been resolved for the year ended March 31, 1982. I also reported that departmental officials were working towards the implementation of a commitment system which still required further refinement. This is still actively in process. I am satisfied with the corrective action taken by departmental officials to resolve this matter.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Health

Home orderly service for handicapped persons

As a result of concerns expressed to me in November 1981 we carried out a special audit of the home orderly service operations in the Department of Health and of the records of a private corporation providing this service.

This private corporation has continued to provide a specialized orderly service in the Winnipeg area on the basis of a negotiated rate per service since commencement of this service in 1970. Because of the kind of service being provided, tendering procedures were not considered to be a practical alternative. Payments for the service to the corporation by the Province commenced with the fiscal year ended March 31, 1970 in the amount of $3,124.50 and have progressively increased to an amount of $294,284.80 for the last completed fiscal year at the time of our special audit, being March 31, 1981.

Our audit of the operations in the Department disclosed that the corporation's billings are being effectively checked against the authorizations for services with only limited adjustments to the billings being required as a result of this check. The Department's system also provides for regular checks to ensure that satisfactory service is being provided including investigation of complaints. Our review of the Department's system disclosed it to be reasonably complete except for a lack of a formalized written contract which should include a provision for an audit of the corporation's records. The Department agreed to attend to this matter.

Our audit of the corporation's billing system disclosed deficiencies which permitted errors to be undetected. Because of a lack of adequate balancing controls we noted that cancelled authorized services on the orderlies' reports were occasionally included with the billings to the Province and in some instances services shown on the orderlies' reports as having been performed were inadvertently omitted from the billing to the Province. With the assistance of the Department, the billings to the Province were extensively checked. This check disclosed an approximate net overpayment by the Province of $1,800. On the basis of the evidence disclosed by our audit we concluded that it would not be cost effective to establish an actual adjustment but, instead, a mutually agreed adjustment should be established. Such an adjustment was established and resulted in a remittance by the corporation to the Department on April 1, 1982 of $1,847.38. The corporation was most co-operative during the course of our audit and immediately agreed to take appropriate steps to correct its billing system.

As a general comment, we found that all reasonable efforts were being taken to provide an effective service. However, because of the kind of service which is being provided some difficulties are inevitable. Nevertheless, the Department is giving further consideration to the operations in the area of training and communication with the view to minimizing the difficulties to the greatest extent possible.

Department of Municipal Affairs

Accountability for grants to municipalities

My Office has continued to work with the Director of Municipal Budgets and Finance of the Department of Municipal Affairs, and with the Municipal Auditors' Association to establish common standards concerning the accountability for and audit of funds transferred by the Province.

In my last year's report I indicated that an Advisory Committee was established to clarify the audit scope and reporting standards and that the Committee issued its report. This report was reviewed by the Municipal Auditors' Association at its meeting in September 1981 and refinements were made to the report.

Department of Municipal Affairs *(continued)*

Accountability for grants to municipalities (continued)

In accordance with the recommendations contained in the Committee's report, the Department of Municipal Affairs prepared draft guidelines for auditing and reporting requirements and the systems of control to be maintained by municipalities in order to comply with satisfactory standards of accountability. These draft guidelines have been referred to the Union of Manitoba Municipalities, the Manitoba Association of Urban Municipalities and the Manitoba Municipal Secretary-Treasurers' Association. After the draft guidelines are processed through these organizations, formal operational guidelines will be issued.

The implementation of the aforementioned improvements will not only assist the Department in its monitoring responsibilities and provide accountability standards comparable to that of the Province, but will also be of significant assistance to municipalities in the management of their affairs. I will continue to monitor the progress of the development in this area.

Channel Area Loggers Ltd.

I indicated in my report last year that there was an improvement in operations for 1980-81 with the loss for the year ended March 31, 1981 being $173,487, a reduction of $104,524 from the previous year. There was also a very significant improvement in operations for 1981-82 with the loss for the year ended March 31, 1982 being $17,259, a reduction of $156,228 from that of the previous year. The Company budgeted for a loss of $71,000 for the year ended March 31, 1982 based on production of 22,000 cords whereas the actual production was 27,400 cords. The Company is anticipating a loss for the year ending March 31, 1983. However, the amount of the loss cannot be estimated as yet because Company officials are still in the process of negotiating the selling price for the up-coming season.

Lotteries and Gaming Licensing Board

I have previously reported concerns regarding deficiencies in administrative procedures and control capabilities of the Board resulting mainly from a lack of adequate staffing to carry out the necessary administrative and inspection functions. I have also been updating the situation as additional staff has been appointed to carry out these responsibilities.

In March 1982, a Commissioner was appointed to inquire into the role and activities of private operators in lotteries in Manitoba and more particularly to inquire into all financial dealings of the private operators insofar as they relate to lottery activities as well as all contractual arrangements between private operators and licensed charitable organizations. The Commissioner has not yet completed his report. When his report is available, we will be reviewing the recommendations resulting from the inquiry and will be monitoring the progress in implementing those recommendations pertaining to improving the Board's administrative procedures and control capabilities. This area will require ongoing attention in view of the continuing growth of lottery and gaming activities in the Province. The Board issued 1,671 licenses for the calendar year ended December 31, 1981 (1,143 in 1980). The Province's revenue from fees amounted to $1,232,694 for the year ended March 31, 1982 ($800,631 for 1980-81). The gross revenue from lottery schemes regulated by the Board is now in excess of $74 million ($44 million in 1980).

Manitoba Data Services Commission

Computer processing service charge

Last year I reported that the agreed basis of billings by Manitoba Data Services for use of its computer facilities by the Manitoba Health Services Commission (M.H.S.C.) resulted in a significant underbilling to the M.H.S.C. This

Manitoba Data Services Commission *(continued)*

Computer processing service charge (continued)

matter is under review but it has not been resolved as yet. Resolution of this matter appears to require a Government policy decision as to how the data processing needs of M.H.S.C. are to be met. However, continuation of the present underbillings, estimated to be about one million dollars per annum, to M.H.S.C. means further subsidization of its operations by other computer users and an understatement of the operating costs of M.H.S.C. I again recommend that immediate steps be taken to bring the charges to M.H.S.C. more into line with reality pending a resolution of this matter.

Manitoba Development Corporation — Subsidiary and Investment Under Part II of the Act

Saunders Aircraft Corporation Limited — In Receivership

In my previous reports I indicated that Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation on May 20, 1976 and provided a summary of cash transactions and other pertinent data from that date. The following paragraphs provide an updating of these matters.

A summary of the receipts and disbursements of the company during the period of receivership up to May 31, 1982 is as follows:

	May 20, 1976 to June 30, 1981 (reported last year)	July 1, 1981 to May 31, 1982 (subsequent transactions)	Total
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	$ 351,184	$ —	$ 351,184
Province of Manitoba	176,942	—	176,942
	528,126	—	528,126
Proceeds from sale of assets	1,818,177	1,000	1,819,177
Collection of accounts receivable outstanding May 20, 1976	959,721	56,762	1,016,483
Aircraft leasing and other income	178,812	1,500	180,312
Interest income on surplus funds, net	207,617	120,394	328,011
Total receipts	3,692,453	179,656	3,872,109
Disbursements:			
Funds transferred to the Province of Manitoba	641,567	—	641,567
Payment of liabilities outstanding May 20, 1976	557,519	—	557,519
Salaries, wages and benefits	360,501	—	360,501
Insurance premiums	467,436	35,000	502,436
Receivers' fees, legal and other professional costs	419,381	37,299	456,680
Other operating costs	494,388	193	494,581
Total disbursements	2,940,792	72,492	3,013,284
Excess of receipts over disbursements	$ 751,661	$107,164	858,825
Funds on hand May 20, 1976			26,173
Funds held by the receiver-manager May 31, 1982			$ 884,998

In May 1982, the receiver-manager provided M.D.C. with an estimate of the possible ultimate net realization from the receivership to be in the amount of $950,000. This estimate includes an expected realization of an outstanding account which is being contested through the courts in Ontario. However, in view of uncertainty and materiality considerations, the amount shown as receivable in the

Manitoba Development Corporation — Subsidiary and Investment Under Part II of the Act — *(continued)*

Saunders Aircraft Corporation Limited — In Receivership (continued)

Public Accounts was not changed from the previous year and continues to be stated at $800,000, as at March 31, 1982.

Except for the litigation pertaining to the aforementioned account, no other matters remain unresolved to the extent of requiring the expertise of a professional receiver-manager. When this litigation is completed an application will be made to the court to discharge the receiver-manager. Arrangements are now being made to transfer most of the funds to the Province. My Office will continue to carry out an ongoing monitoring of the finalization of the receivership.

A.E. McKenzie Co. Ltd. and Subsidiaries

In my report last year I indicated that the Company had projected a profit for the year ended October 31, 1981 compared to a significant loss for the previous year. The financial statements for the year ended October 31, 1981 show net earnings of $67.5 thousand. This is on the basis of a refined accounting policy with regard to determining overhead to be included in the inventory. It is estimated that if the policy had been followed the previous year, there would have been a reduction of approximately $127.5 thousand in the loss for the 1980 fiscal year and a corresponding charge to the 1981 operations. The reported profit of $67.5 thousand is significantly less than the budgeted profit of $968.6 thousand. However, considering the high interest rates, which have such a significant impact on this operation, and the interruption in mail services in 1981, we feel it still has been a year of commendable performance. The Corporation's operation continues to be viable without any subsidy from the Province and the revised projection for the 1982 fiscal year is a break-even situation.

The refinement of the accounting policy referred to in the preceding paragraph with regard to the valuation of inventory consisted of an application of more precision in determining the kinds and extent of indirect costs which are to be included as overhead. As a result of this refinement, the ratio of overhead cost to direct inventory cost has increased, but not materially. However, special monitoring should be maintained in the future to ensure that the value of the inventory will not be overstated.

Manitoba Forestry Resources Ltd.

As at the fiscal year ended September 30, 1981, Manitoba Forestry Resources Ltd. carried wood products inventories of $15.7 million. These inventories consisted of: logs and work in process (pulp chips, pulp and lumber) valued at lower of cost and replacement cost amounting to $12.4 million; the finished goods (pulp, paper and lumber) valued at lower of cost and net realizable value amounting to $3.3 million. This valuation of the inventories was on a basis consistent with preceding years and appropriate for normal commercial operating conditions. Had these inventories been converted based on commercial decisions only, the value would have been realized. However, it is apparent that under the recessionary economic conditions the Corporation's operations are not being conducted on the basis of business considerations only, but include broader social objectives of the Government. A review of the operations subsequent to the fiscal year ended September 30, 1981 disclosed that a substantial loss resulted from the conversion and sale of these inventories. Therefore, under the circumstances, adjustments in valuations of inventories are required. This matter has been brought to the attention of management for their consideration and appropriate action.

As the operations of the Corporation extend beyond commercial considerations, this situation should be recognized through a subsidy by the Province to cover

Manitoba Forestry Resources Ltd. *(continued)*

the Corporation's losses on its operations. This matter has been brought to the attention of the Minister and is being reviewed by him and his officials.

Manitoba Health Services Commission

Proprietary personal care homes

For the past several years we have been reporting that the majority of proprietary personal care homes (P.P.C.H.) are not submitting audited financial statements as required by a Manitoba regulation under the Health Services Insurance Act.

The need for audited financial statements is for this information to serve as a mechanism for secondary controls to ensure that: the amounts paid are reasonable; the funds are being used for the purposes intended; and there is operational stability for providing future services.

The operations are now being carried on mainly on the basis of primary controls only, consisting of: the daily rates, used to determine the payments made for resident care, being established on the basis of actual resident care costs of non-proprietary care homes and, therefore, are considered to be fair and reasonable; a systematic verification of the number of resident days of care being paid for; and a system of inspection to verify that the extent and quality of care are in compliance with reasonable standards. These primary controls provide a basic accountability, nevertheless, there is a deficiency in the areas which were to be covered by the aforementioned secondary controls.

There has been a resistance to supplying audited financial statements for a number of reasons including the difficulty of segregating the proprietor's private operations from the personal care home operations. This matter has been the subject of a recent meeting between the Nursing Home Association of Manitoba, which represents the P.P.C.H., and the Minister of Health at which meeting the difficulties were again explored. A decision was made to carry out a review as to how the necessary data could be provided without a submission of audited financial statements. It is hoped that as a result of this review this matter can be satisfactorily resolved.

Accountability for grants to health care facilities

We reported last year that the Commission was taking steps to attend to recommendations made by my Office for improving its fiscal controls and monitoring procedures over funds disbursed to health care facilities. I am pleased to report that the Commission is proceeding with a plan of action which will provide improved accountability mainly through broader auditing and reporting by the auditors of these facilities, similar to that of the municipal and school division auditors, and through the implementation of internal audit functions.

The Commission has recently sent a directive to the health care facilities' boards, officials and auditors providing guidelines concerning the broader auditing and reporting requirements along the lines recommended by a Committee established to define the audit scope and reporting procedures. More specific particulars concerning this Committee were included in my last year's report under the Department of Municipal Affairs. In addition, the Commission has held a meeting with representatives of management and auditors of selected facilities, at which two of my senior auditors and I attended, to provide explanations and respond to questions concerning the aforementioned guidelines. It was a very useful meeting not only for the immediate implementation purposes of the guidelines but also for the establishment of a line of communication concerning these matters into the future.

Manitoba Health Services Commission *(continued)*

Accountability for grants to health care facilities (continued)

The Commission is also supportive of establishing internal audit functions in the teaching hospitals, because these hospitals' operations are of a size in which internal audit functions can be a vital aid in effective management.

We feel that the Commission is taking commendable steps towards a significant improvement in the accountability systems for grants to health care facilities and in the development of common standards for the accountability of public funds. I will continue to monitor the progress of these matters.

Inconsistencies in hospital overhead recoveries from medical fees

For the preceding two years I have reported significant inconsistencies in the recovery of overhead costs by teaching hospitals for medical practices of physicians employed by the University of Manitoba practicing under the Geographical Full-Time Agreement. Under the terms of the Agreement the physicians are only authorized to practice in the facilities provided by the teaching hospitals, which are mainly funded by the Manitoba Health Services Commission. In addition, the physicians are paid for their practicing services by the Commission at full fee scheduled rates applicable to all physicians which includes, in many instances, a significant factor for overhead costs of medical practices, resulting in some duplication of funding by the Commission.

In the past several years there has been some improvement in the allocation of funding for overhead costs to hospitals. However, because of changes in the medical practices, the situation on the whole with regard to recovery of overhead costs has been deteriorating instead of improving and is most unsatisfactory. The deterioration in the situation is apparent from the information which has been compiled, some of it with substantial difficulty and only on an approximation basis, for the years 1976 to 1980 for the purpose of my review.

As a matter of policy, in accordance with requirements in the development of clinical programs in hospitals, the medical practices in the teaching hospitals have increased significantly. This is apparent from the substantial increase resulting from staff reclassifications and new additions in the number of physicians covered by the Agreement, from 156 in 1976 to 197 in 1980; whereas the number of students in the Faculty of Medicine has not varied materially during this period. The income from these medical practices has also increased significantly, from approximately $3.5 million in 1976 to approximately $6.0 million in 1980. Under the terms of the Agreement this income is not a direct income of these physicians. It is applied to cover certain practicing expenses, to augment the salary income of certain physicians, and to provide monetary benefit for scientific, educational and research activities in the Faculty of Medicine and in the hospitals. While there has been a significant increase in the income from these practices, the recovery of overhead costs by the hospitals has only increased from approximately $220 thousand in 1976 to approximately $285 thousand in 1980.

In accordance with the terms of affiliation agreements between the teaching hospitals and the University of Manitoba, the teaching hospitals are to provide the basic services for the medical practices. However, we have been informed that some of these services are not being provided by the hospitals and the physicians are providing them from the medical fees but there are no formal agreements for these arrangements nor an accountability for them.

Because of the many factors involved, it is practically impossible to ascertain the amount of under-recovery of overhead costs by the hospitals. However, based on a premise that the hospitals were providing the services for medical practices in

Manitoba Health Services Commission *(continued)*

Inconsistencies in hospital overhead recoveries from medical fees (continued)

accordance with the requirements of the affiliation agreements, the under-recovery of overhead costs by hospitals has been estimated to be in excess of one million dollars in 1980 alone.

In addition, we understand that there has also been an ongoing shift to the hospitals in medical practices by physicians not covered by the Agreement; these practices include the greater use of emergency facilities. These practices also appear to result in duplication, to a certain extent, of funding by the Commission.

In order that this most unsatisfactory situation concerning accountability in these operations not continue, it is urgent that appropriate corrective action be undertaken. I again recommend that this matter be attended to promptly.

Manitoba Housing and Renewal Corporation

Last year I reported that the Corporation was making a special effort to develop an effective comptrollership function and an appropriate management information system, and to overcome other reported difficulties. The Corporation had introduced a much improved monthly management information system which included the requirement of providing significant program variance explanations to senior officials and the Board. A Finance and Audit Committee had been established by the Board to provide direction for more effective management of the Corporation; and senior officials were working to further refine the information being provided to the Board. I met in October 1981 with the Chairmen of the Board and of the Finance and Audit Committee and the General Manager; they assured me that the matters raised in my reports would continue to receive the appropriate level of attention until they were resolved.

Since then a new Board has been appointed. The new Board has been going through an orientation process to familiarize itself with the Corporation's past policies, processes and procedures. It is expected that the new Board will either confirm previous policies and practices or vary them to the extent it considers necessary to meet the Corporation's objectives. It would be a positive step toward improved administrative practices within the Corporation if this process resulted in the development of a corporate policy and administration manual which appropriately addressed such issues as the corporate comptrollership function, the management information system and reporting to the Board. The new Board has formed an Executive Committee which will be responsible for financial and audit matters. The development of a corporate policy and procedure manual under the direction of such a committee for approval by the Board as a first priority is recommended in view of past and continuing difficulties in the administration of certain of the Corporation's operations.

In view of the changes in the Board's membership only partial improvements in administrative operations is about all that could be expected at this time. The new Board is undertaking to continue with the resolution of the problems and we will be monitoring its progress during the course of our audit. In the meantime, the operations in a number of areas are still unsatisfactory as can be noted from comments in the subsequent paragraphs, which update specific matters previously reported and includes two new observations; being property and liability insurance, and internal administrative controls for branch offices.

Budgeting and cash flow management practices

The Corporation is continuing to develop its budgeting and reporting practices. However, these practices should continue to receive special attention from senior officials until they are proven to be stable on a continuing basis. On the other hand,

Manitoba Housing and Renewal Corporation *(continued)*

Budgeting and cash flow management practices (continued)

the Corporation did not resolve its cash management practices until June 1982. During the fiscal year ended March 31, 1982, it continued to draw down funds from the Province's Appropriation in excess of its immediate requirements and to invest the surplus funds with the Government. Of the $6.6 million received in accordance with a requisition on March 1, 1982, $5 million in excess of requirements was immediately returned by the Corporation to the Consolidated Fund; before the end of March a further $.5 million was required to be drawn down. The remaining balance of $4.5 million, which was not required, lapsed in the Appropriation as at March 31, 1982. However, the Corporation again continued to draw down funds in excess of requirements from the new fiscal year's Appropriation during April and May 1982 and deposited these funds in its regular bank account. This resulted in surplus funds earning only a minimal rate of interest of 2% at a time when the Province was paying interest of 17% causing a loss to the Consolidated Fund of approximately $44 thousand for this two month period. As indicated previously this matter has eventually been corrected with the establishment of effective cash management practices commencing June 1, 1982. As a result of the aforementioned cash management practices the interest income earned on the excess cash drawn down during 1981-82 fiscal year reflected in the Corporation's 1981-82 accounts amounted to $568.7 thousand; these are questionable earnings of the Corporation.

Rural and northern housing program

I reported last year that there were approximately $600 thousand of rentals receivable in arrears pertaining to this program. It was subsequently determined that this amount should have been approximately $700 thousand. The Corporation has continued its efforts to strengthen its administrative controls over this area; more current information is being provided concerning arrears and vacancies, and a more active follow-up of accounts is being carried out. The Board has recently delegated limited authority to the General Manager to accept transfer of property from borrowers in arrears. There have also been some improvements in the annual review process to ensure that occupants contribute an appropriate portion of their income towards accomodation, except that these reviews are still significantly in arrears for several communities. Satisfactory progress has been made in resolving these matters. The total arrears position is approximately the same as a year ago but this arises because of more difficult economic conditions.

I also reported last year that an individual under this program had occupied a unit under an agreement for sale for more than a year without any payments. This matter has since been satisfactorily resolved; a mortgage agreement is in place and the required payments are being made.

Shelter allowance programs

The Corporation has taken action to resolve our concerns reported last year concerning administrative controls pertaining to the Shelter Allowance for Elderly Renters and Shelter Allowance for Family Renters programs. Appropriate documentation is now being obtained and is on file with respect to verification of age, income and rent. A system has also been put in place whereby a second person reviews each file before payments are processed and an audit by the Corporation's Internal Auditor of one of the programs is planned for the current year.

Property and liability insurance

The insurance for the Corporation's public housing complexes within the City of Winnipeg and for its duplex and single unit dwellings throughout the Province is being handled through an insurance broker. The insurance for the rural public housing complexes is being handled by the local housing authorities through local insurance agents.

Manitoba Housing and Renewal Corporation *(continued)*

Property and liability insurance (continued)

The Board requested the Corporation's staff to review the placing of insurance for 1982 with a view to obtaining the best coverage for the lowest cost. A report prepared by the staff indicated that the cost could be reduced by about $43,000 for the rural public housing complexes by utilizing an insurance broker rather than local agents. Since additional administrative costs would likely be incurred and for other considerations, a decision was made to leave the insurance for rural public housing complexes with the local agents. The Minister responsible for the Corporation was so advised and the Board approved the placing of insurance on this basis in January 1982.

Our review at the Corporation of the information supporting the aforementioned decision disclosed that the 1981 premiums for the rural housing authorities were $183,293 instead of $115,924 as erroneously reported by the staff; the error arose from the data being incomplete. The total savings which could have been realized if all the Corporation's insurance was processed through the Provincial Insurance and Risk Manager would have been about $115,000 when taking into account the aforementioned error and further economies which would result by placing all insurance through one broker.

We have reviewed our findings with the General Manager and the new Board Chairman. They have indicated that the matter will be reviewed carefully, including consultation with the Provincial Insurance and Risk Manager, before a decision is made concerning the 1983 insurance placement.

Internal administrative controls for branch offices

During the past fiscal year, a cash defalcation occurred at one of the branch offices in the amount of $2,678. The case went to court with $1,138 being recovered from the employee and the balance being claimed from the Corporation's insurer. An internal review of this situation disclosed that appropriate internal administrative controls were not in place. For example, the records at this branch were not being maintained on a current basis and the reports submitted to Head Office were not timely or accurate. There was also a lack of direction by way of an administrative manual resulting in branch management not being familiar with its administrative and accounting responsibilities. The Internal Auditor, assisted by Head Office property management officials, has now developed and instituted a new accounting system for all branches and improved practices for remittances by branches to Head Office will also be developed. All these necessary instructions should be compiled in an administrative manual and made available to the branches. The Head Office should also establish an appropriate provision for monitoring in its system to ensure compliance. We were assured that these matters will be attended to.

Manitoba Telephone System

Financial statements disclosure

As a matter of additional information not disclosed in the financial statements of the Manitoba Telephone System, the following provides the changes on a comparative basis for the fiscal year ended March 31, 1982 and March 31, 1981 in the Investment Fund shown on the Balance Sheet of the Manitoba Telephone System *(in millions of dollars)*:

	March 31, 1982	March 31, 1981
Balance of the Fund beginning of year	$22.1	$18.1
Foreign exchange losses transactions:		
Balance beginning of year	25.6	18.1
Add:		
Cash set aside equal to the unrealized losses charged to operations	5.6	7.5
Balance end of year	31.2	25.6
Other transactions:		
Balance beginning and end of year	(3.5)	(3.5)
Balance of Fund end of year	$27.7	$22.1

The Manitoba Telephone System includes in its operating expenses unrealized foreign exchange losses on an accruing basis. On the other hand, the Public Utilities Board only recognizes as an operating expense for rate setting purposes foreign exchange losses when realized. Unrealized losses are considered for rate setting purposes as a reserve provision only, which amounted to $31.2 million as at March 31, 1982 ($25.6 million as at March 31, 1981).

Interdiscom Systems Limited

In my last year's report I commented on contracts with Interdiscom Systems Limited (I.S.L.) and a loan of $500,000 to that Corporation.

During the fiscal year 1981-82, M.T.S. contracted for further work with I.S.L. amounting to approximately $165,000.

With respect to the loan, on August 10, 1981 the Board refused to extend the term of the debenture and determined to treat it as matured and payable upon demand at the option of M.T.S. For accounting purposes only, the amount receivable was written off in the accounts of the System as at March 31, 1982.

On June 10, 1982, I.S.L. transferred to M.T.S. all the rights, title and interest that I.S.L. had in connection with the Omnitel II System developed in Project IDA. There were two conditions on this transfer. One was that M.T.S. had to release I.S.L. from the debenture between I.S.L. and M.T.S. dated April 14, 1980 in the amount of $500,000, including the supplemental debenture dated January 6, 1981, modifying the term of the earlier debenture. The other was that M.T.S. had to enter into an agreement with NABU Manufacturing Corporation (NABU) respecting the use of the Omnitel II System.

On July 5, 1982, M.T.S. released I.S.L. from the debenture and supplemental debenture. On the same day, M.T.S. entered into an agreement with NABU authorizing the use of the Omnitel II System and NABU agreed to grant M.T.S. a purchase credit of up to 5% on certain equipment purchased from NABU and to pay a 1% royalty on equipment manufactured by NABU using the Omnitel II System, together with an unspecified royalty on new equipment developed jointly by M.T.S. and NABU. This agreement is in effect for 10 years, or until the purchase credits accumulate to $685,000, whichever occurs first, with the licensing arrangement being a 20 year term.

Manitoba Telephone System *(continued)*

Establishment of a wholly-owned subsidiary

In accordance with an approval by order-in-council 19/82 dated January 6, 1982, the Manitoba Telephone System incorporated a wholly-owned subsidiary on January 15, 1982 named MTX Telecom Services Inc. The aforementioned order-in-council reads as follows:

> "WHEREAS Alberta Government Telephones, Bell Canada International Management Research and Consulting Ltd. and, The Manitoba Telephone System intend to submit a bid to the Kingdom of Saudi Arabia for the establishment of systems to manage the frequency spectrum in the Kingdom;
>
> AND WHEREAS the Minister believes that the creation of a corporate subsidiary will be of advantage to the maintenance and operation of The Manitoba Telephone System in its consulting sales or acquisition activities outside the Province;
>
> AND WHEREAS Section 21.1(1) of the Manitoba Telephone Act provides as follows:
>
> > "21.1(1) The commission, with the approval of the Lieutenant Governor in Council, may cause to be incorporated under The Companies Act a corporation as a subsidiary to the commission for the purpose of operating and maintaining any part or segment of the system or for carrying on any business related to the maintenance and operation of the system."
>
> THEREFORE, he, the Minister recommends that the Manitoba Telephone System be, and hereby is given, approval to incorporate a subsidiary."

After reviewing this order-in-council and the news release concerning it, I wrote to the Deputy Attorney-General on January 13, 1982 requesting a legal opinion as to whether there was legislative authority for a commitment of the kind anticipated in the order-in-council and as further explained in the news release, being a one-third share of an estimated contract of $175 million. I received a reply from the Department of Attorney-General dated February 8, 1982. The legal opinion indicated that legislative authority is required to guarantee commitments by the Government and that these operations should be considered as unregulated by the Public Utilities Board requiring a separate accounting to ensure that there is no cross-subsidization by the telephone users.

In July 1982 it was announced that a bid concerning the aforementioned contract was unsuccessful. It was further indicated that the aforementioned wholly-owned subsidiary corporation of the Manitoba Telephone System had entered into a 50-50 partnership with Al Bassam International Company to carry on business in Saudi Arabia.

The financial statements of the System for the year ended March 31, 1982 indicated the MTX Telecom Services Inc. operations for the period ended March 31, 1982 sustained a loss of $314 thousand. This loss does not recognize any return from an equity investment of $500 thousand by the Manitoba Telephone System.

In view of the wording of the Act, which has been quoted in a preceding paragraph as part of the order-in-council, I have serious concerns as to whether the System is not extending its scope of operations beyond what the Legislature intended. I believe it would be prudent before the scope of operations is extended so significantly beyond the customary operations to obtain legislative authority which clearly authorizes such an extension. Misunderstandings are likely to continue if the Manitoba Telephone System does not carry out these kinds of operations in a more effectively approved and explained manner.

Manitoba Telephone System *(continued)*

Establishment of a wholly-owned subsidiary (continued)

It is appreciated that the operations of the Manitoba Telephone System have become progressively much more complex over the years with the major advances in the telecommunications area. As a result, there is a need for a review of the present operations with a view to updating legislative and other approval mechanisms to more effectively meet the requirements of the present conditions. This matter was discussed with the Government and the Manitoba Telephone System. We have been advised that the Government and the Manitoba Telephone System are presently in the process of reviewing the foregoing matter and, on a broader context, are re-assessing and redefining telecommunications policies and that appropriate action will be taken to attend to these matters.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Scope of Audit and Reporting Procedures

The scope of audit and reporting procedures, as set out in Exhibit 1 of this report, are consistent with those of the preceding year. The audits and reports thereon are in an up-to-date position. In the past I have been making general observations in this section of the report on the effectiveness of the audits under the present systems. Observations are being made again this year on these matters in the following paragraphs.

Commencing with the fiscal year ended March 31, 1973, I have been reporting that until appropriate accountability systems, which include satisfactory standards of financial and administrative controls at the legislative and management levels, are established and functioning effectively, my Office is not in a position to carry out the kind of an analytical audit which would normally be expected. Since 1973 I have continued to express my concern in my annual reports about the weaknesses in the controls over public expenditures by the Legislature and the Government and have been indicating what progress was being made in the improvements of them.

In my last year's report I indicated that progress had been made in the general controls to a point that risks for misuse of funds have diminished to a satisfactory level. However only limited success had been realized in the controls over program expenditures to maximize economy, efficiency and effectiveness in program operations.

As indicated in other sections of this report further progress has been made during the current year but the situation is still not at a satisfactory level. There are significant inconsistencies in controls over program operations. For example, the Department of Highways and Transportation carries out effective work order cost controls over highway construction and maintenance but the same thing cannot be said as yet for most of the programs in other departments. In my last year's report I indicated that I was satisfied that through more effective management and accountability of public expenditures, savings in the millions can still be realized. My view has not changed in this regard since last year. One of the areas where substantial savings can be realized is from a more productive use of human resources. This is not to suggest that present level of productivity arises because the public service is less energetic than people working in other endeavors. The increased productivity would result from a more objective use of the work force towards a more effective accomplishment of desired goals by employing management direction.

It is most important that the aforementioned improvements be proceeded with expeditiously. There is no doubt that these weaknesses in public administration contributed to the problems of the Seventies, when during a time of unprecedented high material standard of living the future generations have been mortgaged to such an extent, and these weaknesses continue to cause difficulties in effective management. Furthermore, these improvements are urgently needed to serve as a solid base for the important task of carrying out a fair and equitable allocation of scarce resources.

The Royal Commission on Financial Management and Accountability, established by the Government of Canada, in its report issued in March 1979 (The Lambert Report) placed substantial emphasis on the need for a fiscal plan which allocates resources consistent with financial constraints and macro-economic goals. The Manitoba Government is now setting upper limits on resource allocation for the various departments based on an informal fiscal plan. This places the departments in a position of requiring to plan realistically and make hard choices among options available to them in order to maximize the benefits from the use of the available resources. Although this system is sound and consistent with the Commission's

Scope of Audit and Reporting Procedures *(continued)*

recommendations, in my view considerable improvements can still be made to it by way of refinements in its operations. Furthermore, also consistent with the Commission's recommendations, it is recommended that Manitoba's fiscal plan be formalized and publicly stated so that the rationalization behind the allocation of resources is broadly known and understood. This is particularly important at a time when virtually all the slack in the availability of limited resources has disappeared. At this time it appears to be illogical for any one function of society to promote expansion and improvement in its position, regardless of how justified it may seem, without acknowledging which other function or functions are to be reduced. This cannot be done rationally and effectively without the aforementioned documentation and communication.

Organization

The manner in which my Office is organized is shown in the Organizational Chart, Exhibit 4 of this report. The organizational structure has not changed from that of the preceding year.

Staffing

In my previous reports I indicated that my staffing requirements were established at 58 positions. This total was recently increased by 5 to 63 positions. This increase in staff positions was necessary because of additional responsibilities for the attest audits of certain government agencies which have been assigned to my Office. The additional audit positions consist of 1 senior auditor, 3 auditors and technical staff and 1 chartered accountancy student. At present our staff complement consists of 5 senior officers (management committee); 3 audit specialists (2 specializing in computer auditing and 1 in operational auditing); 12 senior auditors; 39 auditors, technical staff and accountancy students; and 4 secretarial and administrative staff.

Because of staff turnover and our recruitment program being geared to workload demands, there frequently are a number of vacancies in the authorized positions. As at August 31, 1982 there were 7 vacant positions. However, we are not experiencing any staffing difficulties and are able to fill the vacancies as needed.

Staff Training

We have continued our staff training and development over the past year in three areas: computer auditing, operational auditing and general auditing concepts and methodology.

The Office has continued to progress with the development of its in-house computer expertise. Higher level advice and direction from the computer audit specialist employed on a contract basis has continued to be most useful. In the past year one of our computer audit specialists was invited to participate in a national symposium on computer auditing held to address the needs and ways to further staff development in this area. Our other computer audit specialist completed the practical experience requirements, course of studies and passed the written examination leading to the designation of Certified Information Systems Auditor (CISA). These staff members are continuing to work with our other audit staff to broaden their experience and knowledge in this field.

Our operational audit specialist has carried out audit assignments and has been utilized to assist other senior audit staff to develop a broader operational audit approach to their assignments. He also participated in the development of a series of in-house seminars which greatly assisted staff with a clearer understanding of practical approaches to current systems and operational audit methodologies.

Staff Training *(continued)*

The Office has also continued the general audit in-house training program for our audit support staff. This program has been viewed by staff as being beneficial and more staff have been participating in it during the past year. The theoretical aspects of the course have been supported through assignment rotation for certain staff members so that the practical application of the theory can be used to reinforce the concepts learned to improve staff effectiveness and productivity.

Formal training available from outside my Office has also been utilized during the past year. Members of my staff have attended several of the courses and meetings arranged by the Development and Training Branch of the Civil Service Commission, the Department of Finance, and professional accounting, auditing and computer oriented organizations where it was thought that these courses would be of benefit to job performance. Members of my staff have also continued to participate with the Development and Training Branch of the Civil Service Commission and with the Department of Finance to assist them in developing and evaluating specialized courses for presentation to government personnel.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1982 as compared with that of the preceding year were as follows:

	March 31, 1982	March 31, 1981
Revenue	$ 371,382	$ 324,991
Expenditure:		
Salary	1,566,570	1,334,803
Other	110,659	91,772
	1,677,229	1,426,575
Net charge to the Consolidated Fund	$1,305,847	$1,101,584

The revenue consists of charges to government agencies which we audit. The revenue charges are made in accordance with the Provincial Auditor's Act on a basis of rates established in compliance with an order-in-council, being direct salary costs plus 25 percent for overhead.

The revenue and expenditure increases mainly arise from inflationary factors and from increased actual staffing of established positions because of lower turnover. The increased actual staffing made it possible for us to give more attention to deferred audit work.

Audit of the Accounts of the Provincial Auditor's Office

In accordance with section 19 of The Provincial Auditor's Act, an audit of the accounts of the Provincial Auditor's Office was carried out for the year ended March 31, 1982 by a professional accountant from the Comptroller's Division, Department of Finance. A copy of the report issued to the Minister of Finance concerning this audit is included as Exhibit 5 in this report.

Meeting of Legislative Auditors

The tenth annual Canadian Legislative Auditors' Conference was held in Victoria, British Columbia July 5 - 7, 1982. These meetings continue to be extremely useful as a forum for the discussion of matters of mutual interest and the sharing of technical and other information pertaining to the work of our Offices. Two of my senior staff members and I attended the conference.

The Chairmen of the Public Accounts Committees in Canada held their fourth annual meeting in Victoria at the same time as our conference so that the agendas

Meeting of Legislative Auditors *(continued)*

of both groups could again be arranged for a joint session to discuss matters of common interest.

The 1983 Canadian Legislative Auditors' Conference will be held in Toronto, Ontario and it is being arranged so that there can again be a joint session with the Legislative Auditors and Chairmen of the Public Accounts Committees.

Provincial Auditor's Liaison Committee of the Institute of Chartered Accountants of Manitoba

This Committee provides a mechanism for the Provincial Auditor and representatives of the Institute in public practice to consider matters of mutual interest, and to ensure that there is a good understanding in their working relationships.

The Committee presently consists of Messrs. Scott G. Ingram, C.A., Chairman, Earl C. McMillan, C.A., and Howard W. Robinson, F.C.A.

ACKNOWLEDGEMENTS

My staff and I are pleased to once again express our thanks and appreciation for the willing cooperation and assistance extended to us during the course of our audits by officials and staff of departments, crown corporations and grantees. We are also grateful to citizens who bring to our attention any concerns which they may have relating to our work and to proprietors and officials of businesses who respond promptly to our requests for confirmation of data. This assistance is a valuable contribution towards more effective audits and accountability.

I would also like to take this opportunity to express my appreciation to the members of the Legislative Assembly for their understanding, support and assistance.

It is with pleasure that I again express my sincere appreciation and thanks to my staff for the faithful performance of their duties in a highly professional manner.

W.K. Ziprick, C.A.,
Provincial Auditor.

October 21, 1982,
Winnipeg, Manitoba.

EXHIBITS

1 Scope of audit and reporting procedures.

2 Schedule of government agencies whose accounts were audited and the financial statements reported on by the Provincial Auditor.

3 Schedule of government agencies whose accounts were audited and the financial statements reported on by Professional Audit Firms with an overview audit by the Provincial Auditor.

4 Organizational chart of the Provincial Auditor's Office.

5 Report on the audit of the Provincial Auditor's Office.

6 A summary of Special Warrants by Departments.

7 A reproduction of my report in the Public Accounts on financial statements included therein.

8 A reproduction of the Operating Fund Assets and Liabilities and Trust Fund Assets and Liabilities in the Public Accounts.

9 A reproduction of the Summary of Revenue and Expenditure in the Public Accounts.

10 A reproduction of the Excess of Liabilities Over Recorded Assets in the Public Accounts.

11 A reproduction of the Statement of Changes in Financial Position — Operating Fund in the Public Accounts.

12 A reproduction of the Accounting Policies — Statement and Application in the Public Accounts.

SCOPE OF AUDIT AND REPORTING PROCEDURES

General Comments

In accordance with the Provincial Auditor's Act, the Provincial Auditor's Office is required to carry out various kinds of audits and a monitoring of accountability to the Legislature concerning the Provincial Government, its agencies and the recipients of public moneys. The Office carries out broad scope financial and management audits of the Provincial Government and certain of its agencies, only management overview audits of the remaining government agencies, of which the financial audits are carried out by audit firms, and inspection audits of selected recipients of public moneys. Particulars of these audits and the reporting procedures are outlined in the following sections.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Provincial Government including the Consolidated Fund and all its departments and the government agencies listed in Exhibit 2, are being audited on a systems based audit under the direction of professional accountants. These audits consisted of the following four components:

1. A financial examination for expressing an opinion on the fairness of the presentation in the financial statements. This examination is conducted in accordance with generally accepted auditing standards and includes a general review of the accounting procedures and systems of internal controls, together with such tests of accounting records and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund. This audit is carried out on an on-line basis as the requests for payments are presented by departments just before the requests are processed for payment by the central system. This part of the audit is fully co-ordinated with the systems based audits of departments. This approach complies with the pre-audit requirements of section 10 and 11 of the Provincial Auditor's Act and is designed to provide an early detection of weaknesses so that prompt corrective action can be taken. It also maintains the audit in a current position and adds discipline to special and unusual payments. This audit of payments consists of:

    a) An examination of all requests for payments to ensure that there is legislative authority for the payment, that the requests for payment are approved by designated officials and are being handled in a business-like manner to appropriately protect the Province's interests. Requests for payment not meeting the aforementioned requirements would be refused. Where there is no legislative authority, payments cannot be made. Payment refused for other reasons can only be made on special authority of the Minister of Finance. Observations are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal the particulars would be fully reported to the Legislature in the annual report.

    b) Test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetic calculations, compliance with government directives, etc. to ensure that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted which indicate that further audit attention is required are referred to the staff member in the Office charged with the overall departmental audit responsibility for further consideration in the evaluation of the departmental systems and in the development of audit recommendations

SCOPE OF AUDIT AND REPORTING PROCEDURES

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor *(continued)*

for improvement. If the testing and evaluation of departmental systems revealed a breakdown in departmental systems and it was concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payments would be refused and payments could only be made on a special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there were need for a refusal, the matter would be fully reported to the Legislature in the annual report.

3. An examination of the administrative management system and its controls to ascertain that the entity is organized and operating in a business-like manner with due regard for economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. It includes a review of the entity's objectives, organizational structure, its budgeting and monitoring systems comparing actual to budget with variance explanations, its internal audit system and other performance monitoring systems, purchasing and staffing procedures and compliance with government guidelines.

4. A more in-depth investigation concerning specific problems observed during the course of the aforementioned examinations and noted from other sources such as:

   — concerns expressed in the Legislature or any of its committees;

   — reports in the news media; and,

   — concerns expressed privately by elected members, public servants and the general public. The sources of this information are held strictly confidential.

Management Overview Audits of Government Agencies Not Audited in their Entirety by the Provincial Auditor

Management overview audits are carried out by the Office for those government agencies listed in Exhibit 3. These are agencies for which audit firms were appointed to carry out audits for reporting on their financial statements. These audits by the audit firms are of a kind as described in the preceding component 1. The management overview audits by the Office consist of a review of the audited financial statements and management reports of the audit firms and the procedures as described in the preceding components 3 and 4.

Inspection Audits of Recipients of Public Moneys

The inspection audits of recipients of public moneys are carried out under the authority of section 17(4) of the Provincial Auditor's Act. These audits consist of visits to only a very limited number of grantees and the audit procedures are similar to those of the management overview audits described in the preceding section. An audit of a much larger number of grantees' accountability is carried out during the course of the audits of government departments and government agencies. These audit procedures mainly involve a review of the adequacy of the grantors' monitoring systems and the findings of these systems together with an assessment of the findings and a determination that appropriate corrective action is being taken.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Reporting Procedures

Reporting on financial statements

Reports are issued on the fairness of the presentation of information in the financial statements in the Public Accounts and of the government agencies, which are listed in Exhibit 2.

Internal reporting

Observations made during the course of audit identifying weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are recorded in the working papers and immediately brought to the attention of the officials concerned for appropriate action. Matters of a kind which warrant the attention of ministers and chairpersons of the boards of government agencies are directed to them in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits the auditors follow-up these matters to ascertain that appropriate action has been taken to resolve the problems.

Annual report to the Legislative Assembly

Significant problems which have been reported to ministers and chairpersons of the boards of government agencies but which have not been resolved within a reasonable period of time are reported on in the annual report to the Legislative Assembly. A number of significant problems which have been resolved are also included in the annual report. They are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly or a committee of the Assembly or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by the Provincial Auditor

Name of Organization	Fiscal Year Ended
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1981
Brandon University	March 31, 1982
Brandon University Pension Fund	December 31, 1981
Centre Culturel Franco-Manitobain	March 31, 1982
Channel Area Loggers Ltd.	March 31, 1982
Civil Service Superannuation Fund	December 31, 1981
Communities Economic Development Fund	March 31, 1982
Co-operative Loans and Loans Guarantee Board	March 31, 1982
Co-operative Promotion Board	March 31, 1982
Department of Municipal Affairs, Minister's Trust Account	March 31, 1982
Legal Aid Services Society of Manitoba	March 31, 1982
Liquor Control Commission	March 31, 1982
Manitoba Agricultural Credit Corporation	March 31, 1982
Manitoba ARC Authority Incorporated	March 31, 1982
Manitoba Arts Council	March 31, 1982
Manitoba Centennial Centre Corporation	March 31, 1982
Manitoba Crop Insurance Corporation	March 31, 1982
Manitoba Development Corporation	March 31, 1982
Manitoba Health Services Commission	March 31, 1982
Manitoba Mental Health Research Foundation	March 31, 1982
Manitoba Milk Prices Review Commission	March 31, 1982
Manitoba Mineral Resources Ltd.	March 31, 1982
Manitoba Research Council	March 31, 1982
Manitoba Root Crop Producers' Marketing Board	June 30, 1981
Manitoba School Capital Financing Authority	March 31, 1982
Manitoba Text Book Bureau	March 31, 1982
Manitoba Trading Corporation	March 31, 1982
Manitoba Vegetable Producers' Marketing Board	June 30, 1981
Manitoba Water Services Board	March 31, 1982
Moose Lake Loggers Ltd.	March 31, 1982
Municipal Employee Benefits Fund	December 31, 1981
Northern Affairs Fund	March 31, 1982
Peak of the Market Sales Ltd.	June 30, 1981
Public Schools Finance Board	December 31, 1981
Public Service Group Insurance Fund	April 30, 1981
Public Trustee of Manitoba	March 31, 1982
Teachers' Retirement Allowances Fund	December 31, 1981
Universities Grants Commission	March 31, 1982
University of Manitoba	March 31, 1982
University of Manitoba Pension Plan (1970)	December 31, 1981
University of Winnipeg	March 31, 1982

In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

Exhibit 3

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by Professional Audit Firms with an Overview Audit by the Provincial Auditor

Name of Organization	Fiscal Year Ended
Alcoholism Foundation of Manitoba	March 31, 1982
Alonsa Conservation District No. 3	December 31, 1981
Cooks Creek Conservation District No. 5	December 31, 1981
Flyer Industries Limited	December 31, 1981
Horse Racing Commission	December 31, 1981
Leaf Rapids Town Properties Ltd.	March 31, 1982
Manitoba Boxing and Wrestling Commission	March 31, 1982
Manitoba Data Services Commission	March 31, 1982
Manitoba Forestry Resources Ltd.	September 30, 1981
Manitoba Housing and Renewal Corporation	March 31, 1982
Manitoba Hydro-Electric Board	March 31, 1982
Manitoba Lotteries Commission	March 31, 1982
Manitoba Public Insurance Corporation	October 31, 1981
Manitoba Telephone System	March 31, 1982
McKenzie A.E. Co. Ltd. and Subsidiaries	October 31, 1981
Rehabilitation Centre for Children Inc.	March 31, 1982
Turtle Mountain Conservation District No. 4	December 31, 1981
Turtle River Watershed Conservation District No. 2	December 31, 1981
Venture Manitoba Tours Ltd.	March 31, 1982
Whitemud Watershed Conservation District No. 1	December 31, 1981
Workers Compensation Board	December 31, 1981

ORGANIZATIONAL CHART OF THE PROVINCIAL AUDITOR'S OFFICE

The chart is structured on a hierarchical basis but in practice the roles and responsibilities may overlap. The overall policies and operations of the Audit Office are directed by a Management Committee consisting of the Provincial Auditor, the Assistant Provincial Auditor and three senior officers with each member focusing his attention on specific areas of responsibility. The operational policies are set out in an Office Manual.

Exhibit 4

Exhibit 5

MANITOBA

DEPARTMENT OF FINANCE
Comptroller's Division

September 27, 1982

Honourable Victor Schroeder
Minister of Finance
103 Legislative Building

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates".

My Branch now performs this audit on a regular basis. Under my direction, an auditor from the Systems Planning & Development Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1982.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours very truly,

Bryan DePape

Bryan DePape, C. A.
Director
Systems Planning & Development
Department of Finance

cc W. K. Ziprick

Exhibit 6

GOVERNMENT OF THE PROVINCE OF MANITOBA

Summary of Special Warrants by Departments

Department	Year Ended March 31 1982	1981
Legislation	$ 2,167,400	$ 332,700
Executive Council	98,700	55,000
Agriculture	4,706,700	1,969,900
Attorney-General	3,345,500	2,460,600
Civil Service	3,095,300	1,519,900
Community Services and Corrections	3,438,500	5,742,600
Consumer and Corporate Affairs and Environment	132,600	435,700
Co-operative Development	493,100	75,900
Cultural Affairs and Historical Resources	800,000	770,000
Economic Development and Tourism	1,139,500	567,100
Education	335,700	1,795,300
Energy and Mines	566,800	133,600
Finance	301,300	2,616,700
Fitness, Recreation and Sport	30,000	126,300
Government Services	5,072,800	7,856,600
Health	46,634,800	22,025,035
Highways and Transportation	19,069,400	9,624,500
Labour and Manpower	224,500	492,800
Municipal Affairs	929,400	371,900
Natural Resources	9,101,900	6,830,200
Northern Affairs	1,246,900	258,900
Urban Affairs	60,800	2,000,400
Flood Control and Emergency Expenditures	2,500,000	5,000,000
	$105,491,600	$73,061,635

REPORT OF THE PROVINCIAL AUDITOR ON THE CONSOLIDATED FUND FINANCIAL STATEMENTS IN THE PUBLIC ACCOUNTS OF MANITOBA

I report that the Consolidated Fund financial statements together with the supporting data and explanatory notes included in the Public Accounts have been examined under my direction for the fiscal year ended March 31, 1982. The examination was made in accordance with generally accepted auditing standards and included such inquiries, tests and other procedures as were considered necessary to enable me to report as required by section 14 of The Provincial Auditor's Act.

In accordance with an order-in-council issued under the authority of the Special Municipal Loan and General Emergency Fund Act, the credit balance remaining in the Special Municipal Loan and General Emergency Fund — Reserve Account of $24,996,733 was transferred to revenue. As at the preceding fiscal year end the balance of this Reserve Account, which was the same, was applied as a reduction of the Excess of Liabilities over Recorded Assets balance. If the same procedure had been followed in this fiscal year the deficit for the fiscal year ended March 31, 1982 would have been larger by $24,996,733. Because the balance in the Reserve which was transferred to revenue was not funded, funding by way of borrowing was required for this amount in addition to the stated deficit.

Subject to the foregoing, in my opinion, the Consolidated Fund financial statements, together with the supporting data and explanatory notes in the Public Accounts, fairly present information in accordance with the accounting policies of the Government stated in the Public Accounts on a basis consistent with that of the preceding year, except as explained in the preceding paragraph.

W. K. Ziprick, C.A.,
Provincial Auditor.

October 21, 1982,
Winnipeg, Manitoba.

GOVERNMENT OF THE PROVINCE OF MANITOBA

OPERATING FUND ASSETS AND LIABILITIES

As at March 31, 1982
(with comparative figures for March 31, 1981)

ASSETS	March 31, 1982	March 31, 1981
Temporary Investments	$ 604,342,412	$ 349,513,979
Advances and Other Receivables:		
Crown Corporations, Agencies, Boards and Commissions (Net of related Sinking Funds of $68,246,651 at March 31, 1982 and $58,209,527 at March 31, 1981)	1,584,338,687	1,371,990,079
Government of Canada and Others	62,150,821	68,475,577
Long Term Investments	243,068,323	241,091,627
	$2,493,900,243	$2,031,071,262
LESS: Allowance for Losses on Realization of Assets	114,026,256	120,974,932
Total Assets	2,379,873,987	1,910,096,330
Excess of Liabilities over Recorded Assets	1,091,131,643	822,040,709
	$3,471,005,630	$2,732,137,039
LIABILITIES		
Amount Owing to the Trust Fund	$ 313,408,597	$ 244,370,858
Bank Overdraft and Promissory Notes	53,565,192	33,710,702
Accounts Payable, Accrued Charges and Funds Subject to Call	250,273,452	184,683,915
	$ 617,247,241	$ 462,765,475
Reserve Accounts	$ 1,221,235	$ 1,273,909
Bonds, Debentures and Other Securities	$3,193,883,997	$2,548,423,189
LESS: Sinking Funds Provided	341,346,843	280,325,534
	$2,852,537,154	$2,268,097,655
Total Liabilities	$3,471,005,630	$2,732,137,039
GUARANTEED AND INDIRECT LIABILITIES		
Securities Guaranteed by the Government, as listed on Pages 3-9 to 3-12		
Self-supporting Debt	$1,805,105,186	$1,826,619,849
Debt Serviced in Whole or in Part from the Consolidated Fund	238,533,499	240,231,425
	$2,043,638,685	$2,066,851,274
LESS: Applicable Sinking Funds	221,790,324	209,157,206
	$1,821,848,361	$1,857,694,068

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1982
(With Comparative Figures for March 31, 1981)

ASSETS	March 31, 1982	March 31, 1981
Amount Due from Operating Fund	$313,408,597	$244,370,858
Cash and Investments	388,635,149	320,079,495
Total Trust Assets	$702,043,746	$564,450,353
LIABILITIES		
Trust Fund Balances	$702,043,746	$564,450,353
Total Trust Liabilities	$702,043,746	$564,450,353
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments — as listed on page 5-29	$587,190,309	$537,936,139

GOVERNMENT OF THE PROVINCE OF MANITOBA

SUMMARY OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1982
(with comparative figures for March 31, 1981)

Actual 1980-1981	Actual 1981-1982	Net Increase (Decrease)		1981-1982 Actual	1981-1982 Estimated	1981-1982 Variance
$2,057,913,309	$2,431,863,998	$373,950,689	Expenditure	$2,431,863,998	$2,381,015,800	$50,848,198
1,968,405,039	2,180,821,120	212,416,081	Revenue	2,180,821,120	2,161,200,533	19,620,587
$ 89,508,270	$ 251,042,878	$161,534,608	**Excess of Expenditure Over Revenue**	$ 251,042,878	$ 219,815,267	$31,227,611

NOTE 1: Adjustments to the Government's Asset and Liability Accounts which generally result from the operations of previous fiscal years and do not directly affect the Revenue and Expenditure of the Fiscal year being reported, are disclosed on the statement entitled "Excess of Liabilities Over Recorded Assets".

NOTE 2: The "Estimated" Expenditure shown above consists only of the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

Main and Supplementary Estimates (including general statutory appropriations)	$2,381,015,800
Special Warrants	105,491,600
Adjustment of estimated amount of statutory appropriations to actual expenditure	12,562,835
Total Authorized Expenditure	$2,499,070,235

Exhibit 10

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXCESS OF LIABILITIES OVER RECORDED ASSETS

As at March 31, 1982

Balance March 31, 1981 before adjustment for amount reserved in Special Municipal Loan and General Emergency Fund		$847,037,441
Excess of Expenditure over Revenue for the fiscal year ended March 31, 1982		251,042,878
		$1,098,080,319
DEDUCT:		
Decrease in allowance for Losses on Realization of Assets:		
March 31, 1981 Balance	$120,974,932	
March 31, 1982 Balance	114,026,256	6,948,676
BALANCE March 31, 1982		$1,091,131,643

NOTE 1: In previous years, the Special Municipal Loan & General Emergency Fund was treated as a reserve account and deducted from the balance in this account. The fund was transferred to Revenue in 1981-82 and is no longer considered an adjustment to this account.

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION — OPERATING FUND

For the Year Ended March 31, 1982
(with comparative figures for the year ended March 31, 1981)

		March 31, 1982		March 31, 1981
EXCESS OF EXPENDITURE OVER REVENUE		$251,042,878		$ 89,508,270
Transfer of Special Municipal Loan and General Emergency Fund to Revenue (Note 1)		24,996,733		—
(Increase) Decrease in Reserves for Depreciation and Replacement		52,673		(251,186)
Net Increase in Long Term Investments, Advances and Other Receivables in Respect of:				
Crown Corporations, Agencies, Boards and Commissions	$213,788,430		$ 66,257,521	
Others	2,940,870	216,729,300	887,453	67,144,974
NET FINANCIAL REQUIREMENT		$492,821,584		$156,402,058
FINANCING WAS PROVIDED BY:				
Debt Transactions				
Proceeds of Loans	$735,571,355		$287,682,395	
LESS: Retirement of Loans	90,110,547		149,152,773	
	$645,460,808		$138,529,622	
LESS: Net Contributions to Sinking Funds	61,021,310		29,196,279	
NET PROCEEDS FROM BORROWING		584,439,498		109,333,343
FINANCING EXCEEDED REQUIREMENT		$ 91,617,914		$(47,068,715)
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR		(71,159,431)		(24,090,716)
WORKING CAPITAL (DEFICIENCY) END OF YEAR		$ 20,458,483		$(71,159,431)

NOTE 1: This fund was transferred to revenue during the fiscal year in accordance with the provisions of the Special Municipal Loan and General Emergency Fund Act. The fund balance originated from money declared to be "excess of revenue over expenditure" in the 1973-74 and 1974-75 fiscal years. The money was not specifically designated and set aside for the exclusive use of the Fund but remained as part of the general working capital of the Province and has been used in the general operations of the Government. Consequently, the transfer of the fund balance in 1981-82 increased the Net Financial Requirement of the Government which was financed through borrowing.

GOVERNMENT OF THE PROVINCE OF MANITOBA
ACCOUNTING POLICIES — STATEMENT AND APPLICATION

STATEMENT

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Public Accounts, are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund." The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.
2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. CASH BASIS OF ACCOUNTING

A REVENUE

i) Revenue, with the exception of shared-cost receipts and Canada-Manitoba Fiscal Arrangements, is ordinarily recorded on a cash basis. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the fifteenth day of April, immediately following.

ii) Money received pursuant to shared-cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year. Accordingly, the uncollected balance of the shared-cost claims related to the fiscal year being reported will be included in the revenue of that fiscal year.

iii) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act and is not recorded as revenue by the Government.

iv) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt and certain investment income are recorded as a reduction of Public Debt expenditure.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid. As well, an accrual is made to March 31st for interest payable on bonds, debentures and other securities.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.
2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the public and accordingly is treated as operating expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year-end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education, and health facilities, which may tend to appreciate in value over time.
3. Amounts loaned, advanced or invested in Crown Corporations, Agencies, Boards and Commissions are subject to annual revaluation. An Allowance For Losses On Realization Of Assets is provided and is adjusted annually to reflect the estimated change in value of these assets.
4. Bonds, debentures and other securities are recorded as liabilities at the par value of such securities and any discount, premium or commission expense is treated as an expenditure of the year in which it is incurred. For foreign issues, the par value is converted to Canadian Funds at the exchage rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. An exception is made for shared-cost receipts, and Revenue from the Government of Canada, which are subject to the following additional practices:

a) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year. A statement of the amounts not taken into Revenue (Deferred Revenue) is included in Section 4 of the Public Accounts.

b) It is the practice to show the uncollected balance of claims related to shared-cost agreements with the Government of Canada as an accounts receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

c) An additional practice is in effect regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements. The accounts are kept open until June 30 to reflect any adjustments to this revenue for the fiscal year just ended that the Government of Manitoba may become aware of before that date. Since this is the Government's largest single source of revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

The expenditure of the fiscal year is essentially the payments made from appropriations during the fiscal year and for a subsequent forty-five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

An exception to this procedure is made for the interest cost on the long-term debt of the Government. In this regard, an accrual is made to March 31st for the interest payable on bonds, debentures and other securities. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.

The Allowance For Losses On Realization of Assets is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of the loans, advances and investments in Crown Corporations, Agencies, Boards and Commissions during the fiscal year, is not shown on the Statement of Revenue and Expenditure. It is reported on the statement that discloses the Excess of Liabilities Over Recorded Assets unless there is a legal realization of the loss, in which case the final write off of the loan, advance or investment will be disclosed after the operating results on the Summary of Revenue and Expenditure. The final write off of the loan, advance or investment will be detailed as to the year in which the allowance was recorded.

Payments made during the fiscal year from depreciation and replacement reserves established pursuant to section 20 of the Financial Administration Act are not aggregated with provincial expenditure because the reserves were originally created and are supplemented annually from funds charged to expenditure appropriations.

A separate category of expenditure, called "Acquisition/ Construction of Physical Assets" has been established to record property acquired for use by the Government, both real and chattels, which normally have an economic life in excess of one year. This category also includes expenditures and grants to municipalities, school divisions, external agencies, etc. which are known to be for the purpose of acquiring physical assets. Included as well are those projects which entail major construction or reconstruction, the result of which will significantly prolong the expected economic life of the asset.

III. ASSETS AND LIABILITIES

The statement of Assets and Liabilities is prepared in accordance with the following practices:

1. **TEMPORARY INVESTMENTS**
   This category includes securities held as a result of the investment of the Government's cash flow and is generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost.

2. **ADVANCES AND OTHER RECEIVABLES**
   Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading as well as financial claims on the Government of Canada and other parties. Amounts due within one year of the statement date are shown as "Current Amounts" and all others are classified as "Not Current". Balances under the advances category are not separated into a current portion and non-current portion even though repayment schedules may exist for some of these items. The Sinking Funds provided by Crown Corporations,

Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

3. **LONG-TERM INVESTMENTS**
The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the Allowance for Losses On Realization of Assets, which is described in the next paragraph.

4. **ALLOWANCE FOR LOSSES ON REALIZATION OF ASSETS**
An allowance is provided for decreases in the value of loans, advances and investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is intended to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchases of shares. The valuation is based on the most recent audited financial statements applicable to the fiscal year being reported that are available at the time of publication of the Public Accounts. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

5. **EXCESS OF LIABILITIES OVER RECORDED ASSETS**
This account represents the difference between liabilities, which are financial claims owing by the Government, and recorded assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

6. **AMOUNT OWING TO TRUST FUND**
A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

7. **BANK OVERDRAFT AND PROMISSORY NOTES**
This category represents the net overdraft in Government bank accounts adjusted for cheques issued prior to and not presented for payment at March 31 and for cash in transit. Short term promissory notes are issued in lieu of increasing bank overdraft or liquidating investments to accommodate fluctuations in the cash flow cycle and are therefore considered together with the bank overdraft. Cheques issued subsequent to March 31 but chargeable to the fiscal year just ended are described in the next category.

8. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**
Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities.

Funds subject to call consist in part of money received from the Government of Canada that will not be taken into revenue until earned. This was earlier described as Deferred Revenue in paragraph I a). As well, this category includes the liability for uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and must be kept available for investment.

9. **RESERVE ACCOUNTS**
Depreciation and Replacement Reserves are maintained by the payment of annual allotments from appropriated funds and by deposit of the proceeds from sale of equipment. The accumulated purchases of machinery and equipment that have been made from the reserve accounts are deducted from the reserve balances to show the amounts still available.

10. **BONDS, DEBENTURES AND OTHER SECURITIES**
This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian Funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. This statement is included in section 3 of the Public Accounts.

11. **SINKING FUNDS PROVIDED**
Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act. Money is allocated annually to these sinking funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition principal repayments of advances which are funded by the issue of provincial securities are deposited to the sinking fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

IV. TRUST FUNDS

The Trust Fund is divided into two primary divisions, Administered Trusts and Custodial Trusts. Those trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsibility for investment of a Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered trusts are divided into five categories:

1. Sinking Funds — This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.
2. Funds on Deposit For Investment — Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rates in accordance with the term of the investment.
3. Banking Facility Accounts — These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.
4. Operating Trusts — Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts and Payments is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.
5. Miscellaneous Trusts — This category contains trust accounts resulting from the sundry deposit of cash and or securities with the Government.

V. CHANGES IN FINANCIAL POSITION

A statement presenting the changes in the Government's financial position during the fiscal year is included in section 1 of the Public Accounts. For purposes of this statement, working capital is defined to include the following:

a) Cash

b) Temporary Investments

c) Current portion of advances and other receivables

Minus

d) Amounts owing to Trust Fund

e) Bank overdraft and promissory notes

f) Accounts payable, accrued charges and funds subject to call

VI. CHANGES IN ACCOUNTING POLICY

Section 10 of the Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year as follows:

a) The Special Municipal Loan and General Emergency Fund, which in previous years was treated as a reserve account and deducted from the "Excess of Liabilities Over Recorded Assets" account, has been abolished. This was accomplished by a transfer of the fund balance to revenue in accordance with the provisions of the Special Municipal Loan and General Emergency Fund Act. The result was an increase of revenue of $24,996,733 for the 1981-82 fiscal year and an increase in the balance of the "Excess of Liabilities Over Recorded Assets" account for a corresponding amount.